Sources of Venture Capital

A Canadian Guide

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In spite of the generous co-operation and assistance from these sources, errors and omissions have undoubtedly appeared in the text, and for these the authors alone accept the responsibility.

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INTRODUCTION

To the Canadian economy, characterized as it is by a relatively large number of high-risk investment opportunities, a high level of foreign investment and the need to sustain a high rate of economic growth to provide employment for a rapidly expanding labour force, the supply of venture capital is a particularly important subject. Yet it is a subject on which there is little systematic information. This booklet fills some of the gap by assisting entrepreneurs to identify and to negotiate with the suppliers of venture capital in Canada.

As in other primary capital markets, transactions occur in the venture capital market when there is a meeting of the minds between suppliers and users about the terms and conditions of contract. It is well known that it is often difficult to obtain a meeting of the minds on the complete set of terms and conditions which, for convenience, we can call the "price" of the capital. This difficulty is unfortunate—at best it raises the cost of financing, at worst no meeting of the minds is reached and an opportunity for profitable investment, employment and economic growth is lost.

Why is it difficult for the entrepreneur and venture capital investor to agree? At least three reasons are significant. First, there is often an antipathy to paying a competitive price for capital when the price is necessarily high.

Second, by the time the price is struck the market conditions may not be adequately competitive because there may be few suppliers of venture capital who are prepared to meet a specific investor's needs. Furthermore, the supplier of funds may be subject to insufficient competition when the time arrives to settle price. It takes time and money to

check out proposals which a preliminary screening suggests have potential. The investor obviously does not accumulate his information to pass it on to his competitors. Thus, where the amount of information he accumulates is extensive, he places himself in something of a monopoly position vis-a-vis the entrepreneur. The entrepreneur can turn to other investors, but this will cost more time and money. He cannot be certain that he will get a better price. A bargaining situation exists with the cards stacked somewhat in favour of the supplier.

Third, entrepreneurs and investors are likely to perceive different levels of risk associated with the venture. If the investor sees greater risk inherent in the market for the company's products or concept than does the entrepreneur, he may worry more about management's capability of coping with them.

There is an obvious payoff to the entrepreneur for having his proposed undertaking well thought out and documented. It greatly simplifies the assessment of the proposal, thereby reducing the costs for investors to examine it. This improves the entrepreneur's bargaining position. But more important, the real risk of undertaking the project is lowered—the entrepreneur has a better grip on the management task.

Hopefully, by providing this insight into the policies and practices of a diverse group of venture capital investors, this booklet will help facilitate the process of coming to terms in venture capital transactions.

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SECTION 1

VENTURE CAPITAL AND VENTURE CAPITALISTS

1.1 Equity Financing Is Expensive Financing

All financing involves a process of bargaining—one party may well get the better of the other party. The venture capitalist is a hard-nosed professional investor who is not encumbered by the emotional commitment of the founder. He is selective and, once having selected, he seeks the best deal he can drive. On the other hand, venture capital often brings with it advantages beyond the actual funds invested such as advice and experience in many aspects of corporate management—financial planning and control, accounting, personnel, marketing and underwriting. Through years of operation for and with the venture capitalist, the company may acquire a reputation and credibility that many similar private businesses could not acquire on their own. When the company has matured, the venture capitalist will then lend his full weight to a successful public offering.

It is important to recognize that common stock financing is an expensive form of financing. When the founders sell a minority or majority interest in their organization, *it is generally gone for all time.* Why give up an equity interest in the business if it is not necessary? The entrepreneur should exhaust first those other sources of funds which do not involve a loss of equity.

1.2 What Is Venture Capital?

The term venture capital means different things to different people. In this text, venture capital means equity investment in non-publicly traded companies. Within this definition, venture investments may be subdivided into major classifications.

Stage Zero—

Equity investment to develop a completely new and unproven idea, product, process or service to the prototype stage or to a point where the market is defined.

Start-Up—

Equity investments in a new enterprise selling a promising product or new service in a well-researched market.

(These first two types or stages of financing are the classical definition of venture capital.)

Development—

Equity investments in a company that is already operational, with staff, plant, equipment and customers. It is a company that is finally about to realize or has just begun to realize its profit potential and needs money to carry on until significant profits begin to flow.

Expansion—

Equity investment in a well-established, profitable company. The company is frequently one that could benefit from substantial expansion but lacks the necessary equity funds.

Turn Around—

Equity investment in a company experiencing difficulties, but which can be re-established on a profitable basis by the injection of new capital and other internal changes.

Buy-Out—

Equity investment in an established profitable company whose owners seek to reduce their present holdings or to sell out completely to a new group (arises frequently because of income tax and succession duty problems).

It is important to recognize that not all venture capital concerns would regard all six of the preced-

ing types of equity investments as being within the scope of their definition of venture capital. Most venture capitalists prefer to invest in companies at the development or expansion stage because the future of the companies is more predictable. Some venture capitalists, however, will finance stage zero, start-ups, turn-arounds and buy-outs. To assist the user, we have, in the specific profile of each venture capital organization (Section 5), attempted to set out each group's defined scope of equity investment.

1.3 What Kind Of Investment Opportunity Is Attractive?

The venture capitalist's services are intended to complement the activities of the chartered banks, investment dealers, term lenders and other well-recognized financial institutions. As the funds provided are generally not secured by a pledge of any assets, they are therefore at risk along with those of the owner/managers with whom they join.

The venture capitalist will, as might be expected, be impressed by people who approach him with plans that are fully developed. The presentation should include information detailing market, competition, plans for entering the market, accurate costs of production or purchases, and the relevant cash flow data. The company must also make available copies of financial statements for a number of years as well as projections for future years, brochures and advertising material showing principal products or services, and a plan indicating how the capital is to be used. In short, the company must present the kind of business plan discussed in Section 3. Since this information will be requested by any investor, preparation of the material should not be considered a waste of time, even if the first application is not successful.

Let us now examine those particular facets of a potential investment in which a venture capitalist is interested.

Growth Prospects—

Few hard and fast rules can be set down for investment criteria. The degree of technology or nature of the product or service involved is not of primary importance. In a sense, the venture capitalist is looking for what any investor should seek: the potential for significant growth in earnings backed by sound management.

In the case of a minority investment in a small company that has a history, the venture capitalist would ordinarily require that the value of the investment double in less than four years. Because such companies are normally valued on an earnings basis, that is tantamount to saying that after-tax earnings must double in that period.

In the case of start-up, early development or rescue situations, the venture capitalist would frequently require the investment value to rise tenfold in the same four-year period. The difference in growth demanded is directly related to the higher degree of risk.

For *bridge financing,* that is, financing under one year and often under six months, the venture capitalist may be more concerned with the security. Because of the shorter term, the venture capitalist may receive a lower return, frequently a combination of interest and a right to buy common shares, exercisable at any time during the next five to 10 years.

Management—

The chief ingredient that the venture capitalist must evaluate is the entrepreneur himself. The elements of a meritorious business undertaking are competent principals, careful planning and diligent implementation. A particular person may have

performed well in a certain environment, under a certain set of conditions, at a particular time with the co-operation of a team. When transplanted, he may do poorly. A person may be a good promoter and a good starter but when there is a need for more organizational ability he may fail. The quality of the entrepreneur himself, the prospective chief executive of the new company, is the crucial element.

Voting Control—

Day-to-day management of the company is left to those in charge. Typically, a venture capitalist leaves the original shareholder or entrepreneur with a sizable equity position in return for his inventions, ideas, capital invested, business developed and continued management. While practices do differ, most venture capitalists follow a policy of buying a minority equity position in a company. Exceptions are a start-up or a rescue situation, in which case the venture capitalist may want control, at least at the outset.

If the company has no record and the venture capitalist demands voting control, frequently the solution to the control question comes through the "performance settlement". Under such an agreement, the entrepreneur's share of the stock depends on his own performance. The better he does, the more of the company he owns in the end.

Unlike most public investors, a venture capitalist's role does not stop with the investment. Typically, a continuing role of counselling develops in the case of minority equity positions and an active role in management in the case of majority equity positions. Other than in crises, venture capitalists are sensitive about accusations that they try to run or otherwise interfere with companies in which they invest.

How Much For How Long—

The venture capitalist will *usually invest from*

$25,000 to $500,000. Venture capital is long-term by definition and venture capital companies do not normally expect to realize their investments quickly. Such an investment policy requires the venture capitalist to have the majority of his assets invested in securities which are not readily marketable.

The venture capitalist usually makes the acquisition by the cash subscription for new common shares rather than by purchase from existing shareholders. Invariably, the owner/manager puts a higher value on the business than does the outside investor.

In cases where the company has earnings, the share price paid by the venture capitalist will likely reflect a multiple of earnings. If the future looks particularly attractive, the multiple could be increased. There are a number of other factors reflected in the price per share, including anticipated growth rate, conceived risks, future liquidity, pricing of similar companies that are public and the competitive activities of other venture capital groups.

It is the hope of the venture capitalist that, within five to 10 years from the date of making the venture investment, the affairs of the company will have so progressed that it will be possible to realize on a part or all of the heretofore illiquid and unmarketable investment.

Restrictive Covenants—

Strong controls will ordinarily be sought to safeguard the venture capitalist's minority position. These controls might include right of approval of large capital expenditures, of senior management salaries, of long-term lease commitments, of loans over and above normal bank financing, and of any decisions which would have an effect on the overall financial structure of the company. In addition, the venture capitalist may require one or more seats on the board of directors.

Getting Out—

The eventual size, nature and success of an enterprise should ultimately allow its securities to be marketable so that the venture capitalist may in time realize on his investment in order to re-invest such funds in other enterprises of promise.

The venture capitalist may realize on his investment in a number of ways:

i) Frequently he will assist and encourage the company to offer its shares to the public. The shares offered to the public might include a part or all of the shares owned by the venture capitalist. To the extent that the venture capitalist does not sell all of his shares in the first public underwriting, the public offering itself does not necessarily assure future liquidity. In fact, in the absence of a strong stock market, many new public companies will take several years to develop the breadth of ownership and investor interest required to support sales by the venture company in any significant quantities.

ii) Alternatively, the private company may be sold for cash or for shares of a public company.

iii) It will frequently be necessary for the company in which the venture capitalist has invested to first make acquisitions and/or to diversify before a public offering or a merger with a public company can be seriously considered.

iv) On occasion, the founders or the incumbent management may seek to buy out the venture capitalist after his role as financial catalyst has been successfully fulfilled.

v) In those jurisdictions where it is legal, the company itself may, over the years, accumulate the working capital resources to buy back its common shares from the venture capitalist.

In Summary—The Venture Capitalist's Ideal—

Despite the best efforts of entrepreneurs and venture capitalists, a high percentage of emerging companies either get into serious difficulties or fail altogether. The venture capitalist will take every precaution before committing his funds. The following is a summary of a venture capitalist's view of the ideal investment opportunity.

The president should be articulate, enthusiastic, people-sensitive, realistic, and should combine marketing skills with an analytical cost-conscious approach to finance. The management team should have cohesion and balance and should be dedicated, thorough planners combining management skills with strong technical expertise. The product should be well researched with an identifiable market. The project should involve a reasonable amount of first financing, with equity shares realistically valued.

1.4 How To Select And Approach A Venture Capitalist

The raising of money to finance a product or an idea is one of the recurring roles of management. The manner in which management goes about the financing will tell a great deal about its initiative, perseverance and ability. The venture capitalist will be studying carefully its ability to muster human resources to cope with the financing challenge. This will provide the venture capitalist with his first opportunity to study management under stress, and to measure the realism, accuracy, sense of responsibility and the overall business acumen of the management team.

Assemble A Management Team—

No one expects the founder to be a personal giant in research, production, marketing, finance, personnel administration and organization. When he has identified his own weaknesses, he must set about

recruiting a management team that compensates for his deficiencies by complementing his personal ability. Too frequently, the founding management group consists of members of the same profession or discipline.

If it becomes difficult to recruit a management team to an under-financed company, it is often practical to get from desirable potential employees an informal commitment, contingent on successful financing.

Document The Proposal—

Experienced investors should not be expected to commit funds to an interesting dream. Dreams must be translated into a thorough business plan. In developing the business plan, the entrepreneur displays personal conviction, commitment and planning ability. The plan creates an infrastructure of fact. Above all, the plan should be realistic and must point out and deal squarely with potential problems and uncertainties.

If external consultants (e.g. lawyers, accountants, management consultants) are necessary to put together a complete business plan, management should

i) determine the professional's competence and experience by asking to see actual business plans developed for other clients;

ii) ask the professional to indicate that he has no other professional commitment which will interfere with the prompt development of the plan;

iii) select an in-house co-ordinator who has the time and enthusiasm to assemble the plan with dispatch;

iv) reduce future costs by training employees in planning and financial presentations by having them work closely with the external consultants.

The federal and provincial governments have many services available to new and established businesses, frequently at no charge or at a nominal charge. As part of the planning process, management should contact the federal and provincial departments of industry, trade and commerce to discuss its business plans. The federal Information Canada or provincial Queen's Printer, who stock a wealth of printed material (especially statistical material), may also be useful sources of information in the development of the business plan.

Management should leave no stone unturned. There are many members of university faculties (business, engineering, economics) who would be willing and enthusiastic to assist a young company. Their assistance is informed, unbiased and frequently inexpensive.

Avoid Early Failures–

Timing is always important in financing. On occasion, the founders will have attempted to complete financing themselves. Having exhausted their own funds, they will desperately seek fresh capital. By the time they turn to the venture capitalist for assistance, working capital has been depleted and the company is insolvent. While failure should not absolutely damn the venture, the prospective venture capitalist may be very disappointed by management's demonstrated seat-of-the-pants approach and its absolute reluctance to plan. Management must not wait until the last moment to finance but should, through a proper business plan, identify the amount of money required and the time when it will be needed.

Be Prepared To Give Up Some Equity–

The founders should compare the amount of money now required to the amount previously invested and come to a realistic conclusion as to how

much of the company they are prepared to give up for the needed capital. They must be realistic. They should consider the need to give up equity before even seeing the venture capitalist. They should then confirm their conclusions with their professional advisors prior to visiting the venture capitalist. Obviously, if they have not timed their needs and are desperate for funds, they will have to give up a great deal.

Making The Selection—

Selecting a venture capitalist should be done carefully. The profiles of the Canadian venture capitalists set out in Section 5 should be a useful starting point. It is generally recommended that only one prospective investor be approached at a time. Begin the selection with a venture capitalist who has expressed interest in the

i) industry;
ii) geographic location;
iii) size of deal.

It may be desirable for the company to consult with its banker, lawyer and accountant for recommendation or to confirm its own selection.

Early in the discussion with the selected prospective investor, the founding shareholder should determine that the venture capitalist actually has uncommitted funds available.

Before Commitment—

Before committing himself, the founder should ask to talk with several entrepreneurs in whom the venture capitalist currently has an investment to determine their satisfaction with the venture capitalist. The founder should review carefully all of the restrictions and obligations the venture capitalist seeks to place on the company. Independent legal and accounting advice may be desirable. Where practical, founders should avoid association with

finders who will take an inordinately large fee for finding capital. Venture capitalists frequently resent these payments, unless the finder has also made an important contribution to the overall business plan.

1.5 Negotiating The Terms Of The Financing

The goal, of course, is to achieve a mutually satisfactory arrangement. The founders are selling an interest in the future profitability of their concept and are obtaining a business partner. The amount and terms of the financing sought should be realistic and reasonable. They should not be inflexible in their demands but should not give anything away. Some of the matters that will have to be negotiated are:

Amount of Financing—

The business plan will indicate the financing required, assuming the projected results are achieved. However, the venture capitalist's judgment with respect to future financial results and accordingly the financing required may well differ from management's.

Timing Of The Investment—

The venture capitalist may wish to make his investment over a period of time as funds are required. The founders should ensure the terms of such phased investment are determined in advance and there is a binding commitment on the part of the venture capitalist.

Form Of Investment—

There are four financing instruments available either alone or in combination. Their use will be determined primarily by the financial position of the venture, the degree of risk associated with the investment and the return on investment desired by the venture capital firm. As it is the venture capitalist's objective to ultimately realize on his investment.

he will ordinarily invest in those instruments which provide the greatest flexibility from a financial and taxation viewpoint to participate in equity and to withdraw investment.

The investment philosophy, objectives, mode of operation and type of financing assistance given by most of the Canadian venture capital organizations may be summarized as follows. The venture capitalist will invest in the common stock of private companies and in securities convertible into common stocks of private or closely-held public companies which offer exceptional opportunities for capital appreciation. Furthermore, it is the venture capitalist's policy, on occasion, to provide a company with additional funds by way of loans (or debt secured only by a floating charge on assets), by subscribing for preferred shares and, where practical, by guaranteeing obligations of the company in return for an equity position or for a call on an equity position in the company.

In venture capital situations, debt can be used to finance time gaps in the working capital cycle for ventures that cannot attract bank debt. This debt is junior to the bank and generally to other institutional lenders. As a reward for his debt financing, the venture capitalist will ordinarily insist that it be accompanied by warrants or be convertible into common stock. To the extent that he takes convertible debt, he is forced to make his decision to convert when the debt matures. With warrants the venture capitalist can defer his investment decision until after the debt is repaid.

In venture capital financings, preferred shares are used almost exclusively with a conversion feature. Preferred shares (unlike debt financing) offer the company the advantage of additional shareholders' equity. The preferred shares also enjoy a preference

in liquidation by ranking ahead of the common shares upon wind-up.

Common stock is the most junior of all securities and has no preference in liquidation. Of course, profits accrue to the benefit of the common shareholders.

A stock purchase warrant is an option to purchase common stock during a specified period of time at a predetermined price.

Percentage Of Ownership—

Venture capitalists normally buy a minority interest. The ownership percentage will depend upon such factors as the stage of the venture at the time of the financing, the amount of the owner's own equity in the venture and the degree of risk and return offered.

If the venture capitalist insists on a controlling interest initially, the founders should try to strike a formula to earn back control. Frequently, the founders will be given an option to buy back control if the company achieves the budgeted growth in sales and profits. "Earn-backs" should be struck at the time of venture financing, not later; otherwise the buy-back price may be inordinately high.

If the founders can avoid giving up too much equity at the outset, they will be protecting their long-term equity percentage for future developments necessitating more financing which undoubtedly would mean a further reduction in their ownership interest.

Restrictive Covenants—

Normally, the venture capital firm will require that its approval be obtained for such things as capital expenditures, borrowing, remuneration of senior management, dividend payment and the sale of assets. The extent of management freedom to make decisions on such matters before the venture capital-

ist's approval is required should be determined in advance.

Management Responsibilities And Remuneration—
Most venture capital firms do not wish to become involved in the day-to-day operations of the companies in which they invest. They keep in touch through their membership on the board of directors. In addition, they will usually want the right to replace management and to obtain necessary management expertise if and when required. Not every person who creates a successful business is able to continue to run that business well as it reaches a size requiring the president to have a considerable degree of managerial ability.

The venture capitalist wants a high degree of financial commitment on the part of the individual seeking financing. Accordingly, he will not look favourably upon demands for a high salary and for the other perquisites common in large or family-owned companies. On the other hand, he will be prepared to reward achievement. Accordingly, it may be possible to obtain a bonus arrangement based, for instance, on a percentage of profits after allowing for a reasonable return on investment.

Cost Of Services Provided By The Venture Capital Firm—
Some venture capital firms charge for the consulting services they provide with respect to their investments. The nature of the services which can and will be provided and the basis of the charge for such services should be spelled out.

1.6 Why Companies Are Turned Down By Venture Capitalists

A prominent U.S. venture capitalist in a recent television interview offered the following list of the

common reasons for rejecting investment proposals:

1. There was not enough owner's equity in the business. The venture capitalist felt that the founders were withholding personal financial resources and viewed this as an expression of a lack of confidence and commitment.
2. The investment proposal had inadequate management and management was unwilling or unable to introduce the necessary depth and balance.
3. The founders were unprepared to give the venture capitalist what he regarded as a reasonable percentage of the company in return for his investment.
4. The founders approached the venture capitalist with an incomplete business plan. By the time the plan was fully developed, so much time had elapsed that the concept had lost the enthusiasm and imagination of the venture capitalist.
5. The founders approached the venture capitalist with a slick business plan which, upon close and expensive investigation, proved to be so unrealistic that management lost his confidence.
6. Although the product or service was interesting, the founders failed to demonstrate that there was a market and that the goods or services could be produced to serve the market under economic circumstances.
7. In order to implement the concept, so much equity capital was required that it was beyond the financing capacity of a group of venture capitalists.
8. The goods or services, even if successfully exploited, offered an inadequate return on investment in the light of the risk being assumed by equity investors.

9. The business concept itself was premature. Product timing is critical. Tastes and social mores may not have changed quickly enough.

1.7 How The Venture Capitalist Monitors His Investments

Once the venture capitalist has put his financial eggs into the entrepreneur's basket, he will want to keep an eye on the basket. He is now a partner—sophisticated and demanding. By monitoring, he seeks to

i) avoid unpleasant surprises;
ii) provide an informed sounding board for a lonely president;
iii) provide ongoing financing counsel;
iv) judge the proper time to withdraw part of his original investment.

Monitoring an investment requires an expensive commitment of a senior member of the venture capital team; high costs explain, in part, the venture capitalist's demand for a high rate of return on invested dollars. The monitoring frequently involves:

1. One or more seats on the board of directors and perhaps even a place on the executive committee;
2. Monthly reports including standard financial statements as well as general reports covering marketing production and research and development;
3. Copies of all budgets, financial forecasts, revised budgets, etc.;
4. In addition, the venture capitalist will attempt to identify the critical or unique variables which may serve as an early warning system on the business. The variables that will be studied include:

   i) the overall growth rate,
   ii) cash management,

iii) working capital,
iv) relationship with important customers,
v) order backlog,
vi) personnel turnover.

In reporting to the venture capitalist, the founders must be prompt, complete, accurate, realistic and honest. Founders should not spend time and energy masking or sweeping under the carpet unavoidable problems. The venture capitalist is ordinarily a sympathetic businessman, experienced in dealing with many types of problems. His assistance should be enlisted at the first indication of a problem.

SECTION 2

CASES IN CANADIAN VENTURE CAPITAL

2.1 Computerized Publishing Service

In May, 1969, nine young men with data processing experience had an idea that computer capabilities could be profitably applied to the publishing field to reduce the cost of producing a typed manuscript ready for typesetting. They left their employers and formed a company. Common shares were issued for approximately $4,700. Two years later, the company had invested capital and long-term debt of $2,400,000 and anticipated gross revenues for 1972 of $1,750,000. Because of the high fixed costs, the key to success in the computer business is to achieve break-even as quickly as possible. This they did.

Despite the fact that management of the company was intimately familiar with computer technology, had administrative and financial experience, and there was a relatively large market for the company's service without any direct competition, the road toward success was not an easy one.

The first service offered enabled text entry and editing by means of a computer terminal and allowed a user to enter an initial manuscript into the company's system, to amend it by deleting or adding to the relevant sections and then to recall the amended manuscript. This service was insufficient. It soon became obvious that it was necessary to have the ability to produce offset plates from the manuscript which the customer could then use for printing. Accordingly, the necessary computer technology was acquired as was photo-composition equipment. To obtain optimum efficiency from the system, the company had to refine the computer software it had purchased and to develop additional software. Only

then could customers efficiently enter an initial manuscript on a computer terminal, edit it, select the type and page composition, and cause an offset plate to be produced.

The founders recognized that a great deal of capital is required by any company providing computerized services. Equipment costs are high, software development is expensive and the majority of operating costs are fixed. Once break-even can be attained, however, each additional dollar of sales provides a significant contribution to net income.

Surprisingly, little capital was invested by the founders. The initial financing was obtained principally from a number of individuals and from two venture capital sources.

This financing was in the form of $1,080,000 of 6 per cent debentures convertible for 10 years into common shares at $5 each as well as 97,200 common shares at $4 each.

As so frequently happens, there was a need to expand the original concept by adding photocomposition capability. As a result, the initial financing proved to be inadequate to meet the new capital requirements. In early 1971, the company sought additional financing and succeeded in obtaining a loan of $100,000 from the Industrial Development Bank. They also succeeded in interesting a third venture capital firm in making an investment.

The latter firm purchased $120,000 of the 6 per cent debentures (convertible at $5 per common share) and 32,500 common shares at $4 per share. In addition, 27,000 of the president's shares were purchased at his original cost and he gave a five-year option on a further 13,000 of his shares at $4 per share.

Conditions imposed by the venture capital firm were:

- one seat on the board of directors;
- monthly financial statements;
- reimbursement for expenses incurred while involved in the company's business;
- board of directors must approve long-term borrowing, sale and purchase of fixed assets costing in excess of $25,000, mergers, changes in the nature of the business, and salary changes for employees earning more than $17,000 per year;
- future sales of treasury shares must first be offered to existing shareholders on a pro-rata basis;
- no employee stock options to be authorized without approval of the venture capital firm;
- legal costs of the venture capital firm with respect to the financing to be paid by the company.

Unfortunately, but typically, forecasted results were not met in fiscal 1970 and 1971 for various reasons including the momentum lost while seeking the secondary financing. Government assistance in the form of the Industrial Research and Development Incentives Act and Canada Manpower Training On The Job Program grants helped the company through this disappointing period. In mid 1972, it was necessary to issue an additional 30,000 common shares at $4 each. These shares were purchased by the three venture capital firms who were shareholders.

After this issue and allowing for conversion of the debentures and the exercise of all options, the president of the company, who originally owned about 60 per cent of the company, would own less than 30 per cent.

The case history highlights two important facts about venture financing:

- The initial financing is seldom sufficient to meet all contingencies.
- The initial financing should be obtained from sources capable of providing or obtaining additional funds when difficulties arise.

2.2 **Sterisystems Limited**

Sterisystems is today the leader in the hospital TV rental field in Canada with 28 per cent of the market. The Sterivision system, which the company provides to hospitals on an exclusive contract basis, consists of a 5-inch or 7-inch black and white television set attached to a gravity-free flexible arm either mounted in the intravenous hole at the head of the bed or on a wall bracket. The power provided at the bed is low voltage, thereby eliminating lethal shock hazards.

In addition to Sterivision, the company provides many other products and systems to hospitals including: Nurse Call, Doctor's Register, Pocket Paging, closed circuit television, electronic thermometers, cardiac monitors and intravenous infusion equipment.

The company, which commenced operations in 1968, went public in June, 1971, by issuing less than 10 per cent of its common shares to the public, at approximately $12 per common share. One year later, the common shares were trading over the counter in Toronto in the $25 range. Total assets at December 31, 1971, were $4,498,000 and sales and net income for the year then ended were $1,803,000 and $375,000 respectively. At June 30, 1972, and for the six months then ended, comparable figures were $5,717,000, $1,388,000 and $178,385.

How did this happen?

In 1967 a company, which manufactured alarm

devices, lost its major customer. To fill the void it decided to seek out opportunities for electronic and communication systems in the hospital market. The company learned of the existence in the United States of what it believed would be the basis for the development of many systems—a single-wire coaxial, low-voltage system. A new company was incorporated in December, 1967, to exploit this concept.

Initial paid-up capital consisted of 43,765 common shares at $2 each and 60,000 preference shares with a par value of $10 each. These funds were provided principally by two venture capital firms, Helix Investments Limited and Francana Development. When, in February, 1968, exclusive Canadian right to the low-voltage system developed in the United States was obtained for 12,485 common shares at $2 each, operations commenced on a limited scale. Gross revenue in 1968 was $71,700 and the company lost $88,000.

In the spring of 1969 the net assets, including contracts and licences to patent rights for the gravity-free flexible arm-mount and certain other systems, were purchased for 50,000 common shares at $4 each. By the end of June, 1969, Sterisystems had purchased the third largest company in the Canadian patient entertainment field for $200,000 cash and $300,000 non-interest bearing debentures due in two years.

The company lost money in 1969 and 1970 and, in addition, spent in excess of $2,000,000 on equipment and installations. The necessary funds were obtained from further common share subscriptions by the original shareholders and a rights offering resulting in the issue of 104,700 common shares for an aggregate of $758,050, bank borrowing in the order of $1,000,000, and the purchase of $425,000 of 8 per cent notes by the major shareholders. The bank loan was

guaranteed by the two principal shareholders for which each received an option on 12,500 common shares at $10 per share.

1971 was the turnaround year. Early in the year the shareholders subscribed for 13,200 shares at $10 each and further bank financing was arranged. Also, options at prices varying from $8 to $17.50 per share to purchase a total of 17,500 common shares were granted to the president, to the bank, and to one of the shareholders who guaranteed the additional bank financing. In June, 2,000 units consisting of 16,000 common shares and 60,000 Class A preferred shares (par value $13.50) were issued to the public providing $960,000 to the company before expenses. The $600,000 of $10.00 preferred shares which had been purchased by the original shareholders were designated as Class B and were made convertible. The public issue enabled the company to repay the $300,000 non-interest bearing debentures and the $425,000 8 per cent notes payable to shareholders.

In 1972, all preferred shares were converted, options to purchase 14,000 common shares were exercised for $137,000, and a rights offering was made at $20 per share to purchase one common share for each 12 held. This rights offering yielded the company net proceeds of approximately $575,000. After the rights offering the debt to equity ratio was approximately 1:3 providing ample room for additional borrowing to finance future equipment purchases.

To summarize the results of this venture, the following was the position of one of the two original venture capital firms at June 30, 1972:

Original investment—1967/68	$ 200,000
Present investment	$1,480,000
Present market valuation of investment—1972	$2,212,000

Potential profit in options held if exercised	$ 262,000

This case contains many interesting lessons, among them:

1. This venture was and is capital intensive. The venture capitalist played a vital role in obtaining otherwise unavailable bank financing by guaranteeing the bank loan.
2. The venture capitalists usually had the experience and know-how to attract an early underwriting of shares. They provided access to public funds as well as to their own funds. They counselled the company through additional financings, acquisitions and were ultimately rewarded for their patience—and deservedly so!

2.3 The Merchandising Concept

The following is not a success story—yet!

An individual with marketing experience developed a franchising concept which appeared to have considerable appeal. Franchising operations are, of course, not new. The difference between this one and others was the type of product to be offered and the manner in which it would be offered.

The concept was developed over several years during which time the product was perfected, various approaches to the marketing of the product were considered, designs prepared and costs and revenue projections developed. These efforts cost in excess of $200,000 in time and out-of-pocket expenses. About $130,000 of this amount was obtained from individuals who became shareholders in the company formed to implement the concept.

An attractive brochure, which included information about the concept and financial projections, was prepared to obtain the funds required (less than

$100,000) to start business operations on a pilot project basis. The purpose of the pilot project was to establish the economic viability of the concept and thereby provide inducement for the investment of the additional funds required for successful launching of the full scale operation.

Favourable comments have been received about the brochure and the concept. Several financing proposals have been received, considered and rejected. However, no funds have as yet been obtained.

The principal reasons for the inability to raise funds on satisfactory terms would appear to be:

1. Timing . . . the bloom is off the franchising rose.
2. Unresolved uncertainties . . . the company has spent a relatively large amount of money, much of which is still owing to creditors, without meaningful results in terms of:
   - consumer acceptance of the product;
   - defining the potential market size;
   - realistic cost estimates and revenue projections.
3. The originator of the idea has no experience in the industry nor has he recruited a management team, even on a tentative basis, to provide the marketing experience and management skills he does not have.
4. The stage of the concept and the relatively small amount of funds sought are both outside the usual area of interest of many venture capital firms.
5. The creditors of the company could, in the event of an infusion of funds, take legal action to collect the amounts owing to them. Accordingly, new funds invested would not be available for the pilot project.

To overcome the concern about creditors' action,

a separate company will have to be incorporated for the pilot project. New funds obtained would then be invested in this company.

What can be learned from this situation?

1. The initial funds obtained from personal sources, friends, relatives and others should be sufficient, with the assistance of moderate financing from banks and suppliers, to develop the concept to the stage where its economic viability can be ascertained.
2. Effort and money should be concentrated on developing the project, testing product acceptance, determining potential market size and arriving at reasonable revenue and cost projections. Future marketing approaches and materials should also be given consideration but expenditures in this area should be limited until the above factors are determined.
3. The management team should be assembled, even if contingent on obtaining financing.
4. While the "grand scheme" must be carefully considered before seeking additional funds, expenditures and effort in this area should be minimized. Efforts should be concentrated on the pilot project. It must be an obvious success if more money is to be attracted.
5. If the entrepreneur is unable to or unsure of how to develop his concept to a stage where outside investment can be obtained, he should seek advice from knowledgeable friends and/or professionals. The goal is, of course, to obtain the maximum benefit at the lowest cost. Often it is better to pay a competent professional, say $5,000 to $10,000, to complete a study than to spend weeks or months fumbling around without producing meaningful results. Time is frequently an important element in achieving a competitive edge.

SECTION 3

THE BUSINESS PLAN

The Business Plan—What Is It?

The business plan is a written summary of the overall activities of the business enterprise. It is a report on the company's sources and uses of funds, its management personnel and labour relations, its products and marketing strategy, its production techniques and research program. It describes the past, present and future of the enterprise. When it is properly prepared, the business plan becomes a blueprint for financing. It should be complete, organized and factual.

The business plan forces management to plan and to balance plans. If management promises a 100 per cent per annum growth in sales, then the business plan must prove that working capital is available to support this level of activity; that the plan can, or can be expanded to, handle that volume; and that adequate labour will be available at that production level. The business plan forces management to commit wild forecasts to a plan that balances all inputs—capital, materials, labour and productive capacity.

Why Bother With A Business Plan?

The business plan will be one of the most important elements in the presentation to the venture capitalist and a focal point for organizing the whole management effort. It is absolutely indispensable. A well-prepared plan:

1. induces realism in the founders. When founders are forced to sit down and really study and quantify the whole cost—volume—profit relationship—they are frequently made aware of their own over-optimism;

2. exposes management (especially non-financial professionals) to the whole planning, budgeting, forecasting and reporting process—its method and its merits;
3. helps to set the break-even point in profitability and cash flow;
4. helps to identify the users, the market, the pricing strategy and the competitive conditions under which the company must operate to succeed;
5. provides the budget that will be a useful barometer for an early assessment by the venture capitalist of project feasibility and project attainment;
6. spurs prompt investigation of deviations or variations from plan before conditions become irreparable;
7. discloses the timing and amount of the sources and uses of funds, especially the timing of capital expenditures and the need for short-term bank borrowings;
8. provides a measurement of anticipated return on investment;
9. identifies the number of employees needed, the timing of their need and the balance of skills;
10. is testament to the ability of the management to plan;
11. reduces the time that it takes a prospective investor to assess and accept or reject the proposal;
12. helps establish optimal size and location of plant and facilities;
13. helps to identify the factors critical to the success of the concept.

Above all, the business plan is a tangible submission blueprinting management's dream. The venture capitalist will either take the dream apart or he will be convinced of its obvious merits when he reviews the blueprint.

The Business Plan—Its General Outline

The Mini-Proposal—

It is recommended that the plan be introduced by a one to three-page summary of the idea, the market need, the amount of capital required and the projected financial results expressed as a rate of return.

Table of Contents—

The contents should be comprehensive and well indexed for complete and easy reference.

Physical Condition—

The plan should be typed and set out in such a way that it invites examination (e.g. double-spaced and well paragraphed). Frequently the most inviting reports are those which introduce each new idea with a question, the answer to which follows in the body of the text.

The business plan should be prepared in non-technical language wherever possible.

Playing The Devil's Advocate—

Every intelligent reader of the business plan will read it with scepticism. The contentious points should be anticipated with the business plan addressed to those points. The plan should discuss any special hazards or problems associated with the product. An experienced investor knows that every product and every company has some element of risk attached to it. There should be no attempt to gloss over the negative aspects of the product or the company.

The Business Plan Itself

1 Background—

A narrative description of the development of the business or the concept including the rationale for entering specific markets should introduce the plan.

3.4.2 Management—

The business plan must establish that management, capable of carrying out the business plan, is or will be available. The plan should include:

1. Personal resumes of the executives and senior supervisory personnel detailing
   age,
   academic background,
   positions held,
   shareholdings,
   functions,
   principal accomplishments,
   business references,
   a description of current remuneration.

   The plan should demonstrate that these people will be capable of growing with the company.
2. A discussion of back-up management and availability of replacements. Does the plan depend on one man for its complete success or failure? Discuss in detail how each individual could be replaced in a crisis.
3. A comment on the extent to which product, goodwill or technical know-how may come to rest in a limited number of people who are not substantial shareholders.
4. A discussion of the need for employment contracts.
5. A description of why members of the management group left their former employers.
6. A schematic organization chart that describes the responsibilities associated with each major management position.
7. A comment on the demands on senior management in year five of the plan to ensure that management will be able to cope at expanded activity levels.

8. Identify the timing and the need for new management.

3. Labour—

The plan must identify:

i) the skills required;
ii) the timing of the need for labour;
iii) compensation levels both now and in the predictable future;
iv) the availability of labour;
v) the anticipated productivity of the labour.

The plan must bespeak its realism by building in training and a learning curve and by showing its flexibility and responsiveness to unanticipated disruptions and demands.

The plan should comment on:

1. The company's compensation including fringe benefits, comparing it to other companies in the same geographical area and/or in the same industry;
2. The current or anticipated status of union contracts, union demands and objectives;
3. Labour relations in the company and in the industry. It should comment on the extent to which the company is exposed to further labour organization. It should name current and prospective unions;
4. The availability of skilled and unskilled manpower in the area to meet the most optimistic levels of demand;
5. Whether the company and the industry are becoming less labour intensive. Comment on labour turnover comparing the company's position to that of the industry.

4 Research and Development—

The business plan must demonstrate that the company has the technical capability to introduce

and sustain products or processes. The plan must therefore:

1. indicate why the product or process is unique and worthy of financial support;
2. provide independent scientific support for the product or process (including laboratory reports and/or users' reports and endorsements);
3. indicate the anticipated costs of developing a working prototype (including timing);
4. set out anticipated research and development costs to advance prototype to production-line status (including timing);
5. comment on the state of the art among
   i) domestic competitors,
   ii) foreign competitors;
6. comment on ability to legally protect know-how and lead time over competitors (e.g. patents);
7. describe the scientific frontiers that are being advanced the most;
8. describe future pressures on research and development, commenting on probable product adaptations.

3.4.5 Marketing—

The marketing aspect of the business plan must convince the reader that the company has a product or process which is different and worthy of support.

The marketing-plan must identify:

i) the customers,
ii) size of the market,
iii) anticipated selling price,
iv) methods of distribution,
v) costs of reaching the market.

A well prepared plan should:

1. comment on the general condition of the economy and the industry. Comment on the degree to

which the company's products or services are sensitive to short-term changes in the economy;

2. describe in detail the existing and proposed products or services including any patented or patentable features. Submit sales literature, photographs, drawings, etc.;
3. describe the customer benefits and economic advantages over existing competitive products or services;
4. define the company's marketing philosophy;
5. outline with reasons, a detailed marketing plan including:
   i) analysis by product, by territory,
   ii) optimal distribution method, e.g. wholesaling, franchising, own sales force, agents, etc.,
   iii) price and credit structure, product-line profit contribution,
   iv) break-even analysis by product and territory,
   v) market characteristics, market measurement,
   vi) identification and classification of principal customers,
   vii) product and packaging testing,
   viii) test marketing,
   ix) media selection for advertising,
   x) warranty policy;
6. indicate the present and potential size of the total market. What share do you hold or expect to hold?
7. provide an analysis of competitors, including an evaluation of their products, pricing, market share;
8. name potential customers who have been contacted. To what extent have they shown enthusiasm? Give actual names of people in company who may be contacted;

9. describe degree of exposure to changes in freight costs, strikes at carriers, customers and suppliers;
10. comment on the potential demand for the product or service in the export market. When and how should this demand be met?
11. estimate market start-up costs.

[illegible].4.6 Manufacturing–

The manufacturing plan must identify:

i) the need for physical plant;
ii) optimal size and layout of plant;
iii) capacity of plant;
iv) alternative uses;
v) burden of fixed costs;
vi) availability of a trade-off of fixed costs for variable costs (e.g. by sub-contracting component production);
vii) the cost of the fixed assets required.

1. The plan must include a complete bill of materials describing and costing each input and naming at least two suppliers. It must also indicate whether it is from domestic or foreign supply.
2. Comment on price trends of major raw materials, compared to trends in selling prices of the finished products.
3. Determine degree of reliance on one or few suppliers, carriers, etc.
4. Comment on utilities, degree of dependence, availability usage and rate trends.
5. Comment briefly on anticipated availability of all major items of raw materials consumed in operations.
6. Comment in detail on *how* you arrived at the following factors of manufacturing standards:
   i) size,
   ii) weight,

iii) durability,
iv) convenience,
v) packaging,
vi) quality,
vii) colour,
viii) customer service,
ix) product standardization and compatability.

7. Comment on how plant location has been or will be determined. Include references to:
   i) customer proximity,
   ii) supplier proximity,
   iii) manpower availability,
   iv) transportation services,
   v) investor preferences.
8. Describe and diagram the production process. The costs of all facilities and equipment should be substantiated by invoices or third party quotations from prospective landlords, contractors, equipment suppliers, etc.
9. Comment on qualifications to do a plant layout. Discuss scope for physical expansion at same geographic location.
10. Comment on production planning and scheduling procedures, including an estimate of plant start-up costs.
11. Briefly describe existing plant and property. Comment on physical condition of plant and equipment including outstanding capital projects and probable costs of expansion. Give expansion time-table.
12. Provide a quarterly analysis of degree of unused capacity and where possible similar data for the industry and competitors.
13. Brief trend analysis of expenditures on maintenance and fixed asset additions (both owned and leased).

3.4.7 Other Information—

The other information that should be included in the business plan will be of a legal nature. It will include a description of authorized and issued shares, copies of relevant contracts and disclosure of all non-arm's length relationships. This information will be important to a prospective investor and his lawyer in determining that the company is legally capable of accomplishing its business purpose in the proposed way.

1. Give facts as to incorporation of company, date, province, the locations of executive officers.
2. Submit a photo-copy of the letters patent especially those sections dealing with the authorized capital structure (including rights, restrictions and preferences).
3. Include a complete listing of shareholders and number of shares owned.
4. Submit a chronological record of consideration received from prior sale of shares, number of buyers and identity of principal buyers.
5. Provide information on any predecessor companies, partnerships, trusts, if any, including financial statements, a copy of agreement of asset and know-how transfer, details of contingent liabilities.
6. Submit a copy of any:
   i) employment contracts;
   ii) pension plans including actuarial reports on extent of unfunded past service liabilities;
   iii) profit sharing plans;
   iv) options and warrants;
   v) patents, trademarks;
   vi) franchise and distributorship agreements.
7. Comment on whether there will be any non-arm's length relationships between the company and its

landlord, customers, carriers, distributors, licensors, licensees and suppliers.

8. State whether the company's beneficial contracts are assignable. Consider licences, royalty agreements, employment contracts, leases, suppliers' contracts, collective bargaining agreements.

9. Comment on any past, present or threatened litigation or proposed changes of laws which could adversely affect business, e.g.:
   pollution legislation;
   minimum wage law;
   new government production standards;
   tariffs;
   exchange controls;
   price controls;
   advertising and promotion.

10. Describe those aspects of the company's business now subject to government control and regulations. Is there a likelihood of additional regulation?

11. A trade secret may frequently be a very valuable asset. In many cases, industrial know-how will be the most important asset contributed by the entrepreneur and founder. There are two principal considerations surrounding know-how which the founder must be prepared to discuss thoroughly with the venture capitalist:

    1. Does the industrial know-how legally belong to the founder?

    2. Assuming that it is legally the property of the founder, to what extent is it patentable?

    Services of a skilled lawyer will be required to clarify these points before the venture capitalist will make any commitment. Frequently, the venture capitalist will want his own legal counsel to consider these matters.

Founders forget that at some time in previous employment, they may have signed agreements at their former employer's request that:

i) they would not directly or indirectly own, operate, be employed in, or otherwise be connected in any manner with an enterprise competing with their former employer;

ii) that they would not communicate with or contact any customers of their former employer;

iii) that they agreed to assign and transfer to their former employer all inventions, discoveries or improvements made during their former employment.

There may be circumstances in which the industrial know-how which the founder represents as his own was once owned by predecessor corporations, partnerships or proprietorships. Although the former owner and partners may have, in discouragement, abandoned their active interest in the product, process or service, they may still have a legal claim to participate. These long lost claimants frequently do not appear until the concept is an assured success. While some of these claims may be unenforceable, legal counsel is highly recommended if the founder is to reduce his vulnerability to legal action from past employers, former partners and fresh investors.

3.4.8 Financial—

The financial component of the business plan will summarize in a visual form, expressed in dollars, all of the other elements of the business plan, marketing, production and personnel. It will demonstrate whether management's dreams, when expressed in

dollars, are an integrated attainable projection. A well prepared financial plan must identify:

i) the sources of funds . . . in terms of timing, amount, cost and repayment;

ii) the uses of funds . . . in terms of timing, amount and return.

So many companies underestimate their needs. When their shortfall is finally identified, the expenditures have reached the point of no return. If the company is desperate, the cost of funds will be outrageous. Great care should be taken not to underestimate the necessary amount of funds. Always overestimate the need for money.

The financial plan should therefore include:

1. Actual audited financial statements for at least the most recent five years should be submitted. These statements, both balance sheets and income, should then be transferred to a five-year comparative summary for ease of study by investors.

2. Interim financial statements should be submitted for each of the last 12 months and for each of the last five quarters to facilitate month-to-month monitoring of operating results by means of comparison with forecasts submitted.

3. Detailed cash flow and income projections should be provided on a monthly basis for the next 24 months and quarterly for the following three years. These estimates must be realistic. It is advisable to prepare three separate forecasts: the most pessimistic, the most optimistic and the most probable. All assumptions should be described and cross-referenced to a document that supports these assumptions. The cash flow analysis will indicate the timing and amounts of sources and

uses of funds. Determine the precise capital needs and comment on the anticipated sources of these funds—timing, amount and cost.

4. Pro-forma balance sheets should be prepared for each of the next five years.
5. All costs should be broken down into fixed and variable components. The break-even point (both accounting and cash-flow) should be determined.
6. Wherever existing loans are outstanding, identify:
    - lender;
    - terms;
    - security;
    - restrictive covenants;
    - lending officer;
    - details of options, conversions;
    - audited financial statements for as many years as possible.
7. Complete description of accounting principles and policies including:
    - i) Recognition of inventory obsolescence, disposal of inventory variances, treatment of fixed and variable overhead, inventory cost flow assumptions, e.g. LIFO, FIFO, average cost.
    - ii) Treatment of prepaid expenses and deferred charges, e.g. supplies, uniforms, large advertising campaigns.
    - iii) Treatment of research and development expenses.
    - iv) Recognition and amortization of intangibles such as goodwill, patents, licences, franchises and know-how.
    - v) Fixed asset accounting policies, including capitalization policy, maintenance policy and depreciation policy (straight-line vs. declining balance vs. sinking-fund).
    - vi) Treatment of leased assets.

vii) Treatment of government assistance and government grants (reduction of current expense, deferred revenue, reduction of cost of fixed assets, contributed surplus).

viii) Basis of provision of liability for damaged goods, warranties, guarantees, servicing.

ix) Recognition of revenue on installment sales, deferred servicing. Clear statement of methods followed in recognizing revenue in general.

x) Treatment of other lump-sum non-recurring or abnormal outlays, e.g. lease termination, severance payments, special advertising, opening expenses, consulting studies.

xi) Impact of changes in accounting policies during period. Put all statements on a comparative basis. (Note: Also put statements of other companies being used in comparative study on same accounting basis, where practical.)

**The Proof Of The Pudding—
Is It In Your Business Plan?**

Before the plan is submitted to a prospective investor, several independent parties should review it to determine those matters which may have been glossed over, misrepresented or left unanswered.

The independent parties should confirm that the plan demonstrates:

1. complete managerial ability;
2. realistic market identification and marketing strategy;
3. sufficient funds for long-term activity;
4. balanced productive capacity;
5. a technically feasible commercial product.

There are few smooth-talking promoters and entrepreneurs who can make up for an inadequate business plan. If the plan is not well prepared, the company does not deserve financing!

3.6 Helpful Tips For Attracting Venture Financing—A Summary

Someone once defined a "big shot" as a little shot who kept shooting. Keep shooting. Financing for most people is a time-consuming, expensive, frustrating and demoralizing experience. The entrepreneur must:

1. Become the advocate of his product or service. He must sell, sell, sell. He should rehearse his presentation until it will withstand experienced cross-examination. He must be prepared and be persistent;
2. Place special emphasis on researching the market;
3. Get professional assistance, but only for those aspects of the presentation in which he may be expected to lack expertise;
4. Demonstrate his own financial commitment before expecting others to supply high-risk capital;
5. Try to scale down grandiose plans into identifiable stages. Frequently, a small-scale pilot project can be easily financed. If it is successful, other stages of financing become easier;
6. Consider acquiring a profitable going concern onto which the new product or process may be added;
7. Attract prestigious people to the product or process (e.g. backers, suppliers, customers, users);
8. Get advance customer commitment and document their acceptance of the product or service;
9. Include in the proposal the negative factors as well as the positive;
10. Keep partners to a minimum in early stages. Otherwise too many people must agree on every detail before any steps can be taken;

11. Be stingy with equity but be realistic. Avoid giving away too much of the concept in the early stages before the major financing has been raised;
12. Avoid delays. The entrepreneur must take a leave of absence from his current employment, if necessary, to really give the proposal the attention and dedication it deserves;
13. Check, double check and then check out again, finders and financial consultants. A reputable counsellor is worth his fee—but there are some finders who will waste time and prostitute the proposal.

SECTION 4

OTHER SOURCES OF FINANCING

Has The Entrepreneur Exhausted The Other Sources of Funds?

It is important to recognize that common stock financing is an expensive form of financing. When the founders sell a minority or majority interest in their organization, it is generally gone for all time. Why give up an equity interest in the business, if it is not necessary? Furthermore, since all financing involves a process of bargaining, one party may well get the better of the other party. The venture capitalist is a hard-nosed professional investor who is not encumbered by the emotional commitment of the founder. He is selective and, once having selected, he seeks the best deal he can drive.

Before approaching the venture capitalist, the entrepreneur should first exhaust those sources of funds that do not involve a loss of equity.

Personal Resources–

Any prospective investor, particularly a large investor, will try to measure the founder's belief in his own project by determining how far into "hock" he has been prepared to go. The founder must be prepared to demonstrate his own commitment. If he is unwilling to bear risk, why should anyone else?

Friends And Acquaintances–

A potential entrepreneur must be capable of commanding the respect and admiration of fellow employees, relatives, friends and acquaintances. To the extent that an individual is incapable of attracting this kind of financial support, he probably has a poor personal track record.

Frequently, cash-poor but wealthy friends who would not otherwise make a cash investment can be

induced with warrants to guaranty conventional bank loans. Guaranties should not be overlooked—they are valuable assets.

Banks—

Canadian chartered banks may, among other things, make working capital loans and term loans to a business enterprise. One cardinal rule of finance must be observed: "Long-term uses of funds should be supplied from long-term sources of funds—avoid imbalance in financing." The bank will not and should not be expected to provide most of the risk capital; but there is always a role for the bank, a role it is generally prepared to assume.

A well-prepared financing plan in the form of budgets and cash-flow projections is essential to induce the bank to supply a working capital loan, secured by receivables and inventory.

Once again, guaranties by third parties may enable the company to stretch the limit of this source of funds.

Finance Companies—

The industrial finance companies will ordinarily supply credit to an enterprise to finance machinery and equipment either by means of a conditional sales contract or by means of a leasing arrangement.

Manufacturer—

Frequently the manufacturer will, in an effort to meet and beat the competition, provide financing of machinery and equipment and even of certain services. This financing may involve:

i) a lease arrangement;
ii) special introduction to a finance company;
iii) extended credit terms (occasionally for several years at normal interest rates).

These preferential arrangements are not always volunteered by the manufacturer. They come as a result of skilful, hard-nosed, tactful negotiations by the buyer.

Customers—

On occasion, customers may be encouraged to make advance payments prior to production or delivery of the goods or services. These prepayments may form a fairly permanent source of working capital. Special pricing and special terms may be advisable and necessary to attract prepayments, deposits and outright loans.

Employees—

Frequently, junior and senior employees have capital or access to capital that they may be willing to commit to a company whose products, processes and people they know, understand and trust and whose progress they can monitor. A word of warning: it frequently becomes difficult to remove, replace or retire an unproductive employee who has a large founding equity.

Factors—

There are in Canada several factoring companies which will purchase or lend against a company's accounts receivable (at a discount) and undertake to collect them on a notification or non-notification basis and with or without recourse to the company itself. Factoring has its place—but it too must be identified as an expensive source of funds.

Consultants and Finders—

The financial consultant (lawyer, accountant, investment dealer), retained by the company to assist the company in the preparation and presentation of the business plan, may himself have access to sources of finance and may bring his own enthusiasm to bear on inducing their investment.

Investment Clubs—

While most investment clubs are small in terms of total assets, they provide access to funds from the club and, more importantly, from its members.

Suppliers—

Under competitive pressure, suppliers may be prepared to provide financing not only through special extended terms but even through direct debt or equity investment. A word of warning: if the enterprise receives significant debt and equity assistance, it may place the enterprise in a compromising position when the supplier ceases to be competitive in terms of price, quality, delivery and service.

Investment Dealers—

Investment dealers should be capable of providing access to funds for worthy products and processes. They may assist the company through:

i) private placement of the company's debt and/or equity securities;
ii) public offering.*

Government Assistance—

The federal and provincial governments of Canada continue to expand and extend their financial assistance to Canadian businesses. No one should undertake to finance a business in Canada today without determining his eligibility for government assistance.

Franchising And Licensing—

Occasionally, the founders may be able to attract other entrepreneurs to their products and services. Franchising and licensing may produce the funds necessary to launch the concept on a scale large enough to make it immediately economic.

**For a complete discussion of going public, see the book "GOING PUBLIC IN CANADA—the facts and the fads"—by Peter McQuillan, published by The Canadian Institute of Chartered Accountants in 1971.*

4.2 Is Going Public An Alternative To Venture Capital Financing?

Going public is not really an alternative to venture capital financing. Instead venture capital is a

different and earlier stage in the financing life cycle of a business. In unusual stock market periods, sometimes venture capital will overlap with going public. This was certainly the case during the last bull market (1968 to 1970) when a number of unseasoned companies went public before they otherwise might have. On the other hand, in the recent bear market (1970 to 1971) venture capital companies sometimes financed smaller public companies. There have even been a few cases in which the concept requiring financing involved so much risk that venture capital companies rejected the opportunity only to see it ultimately financed through a public offering, albeit a best efforts offering. These are, however, exceptional cases.

Many small and medium sized companies are restricted in their prospects for rapid and profitable expansion only by being undercapitalized and by their limited access to capital. For many of these companies the question of going public is not completely out of the question. There are, however, a number of circumstances under which a public offering should be deferred and venture capital should be regarded as the appropriate intermediate step in the financing cycle.

1. With the additional equity capital that the venture capitalist is prepared to supply, the company may be able to obtain debt financing through institutional sources otherwise not available. This combination of equity and debt may have an overall lower cost than complete common stock financing through a public offering. If the venture capitalist is prepared to guaranty debt, the door may be opened even further to debt financing.
2. When a company is financed through an experienced venture capitalist, a setback in the operat-

ing results need not be fatal so long as the venture capitalist has not lost confidence. Most venture capitalists have seen financial reverses dozens of times before and do not panic easily.

Experience has shown that most companies' performances do not meet the promoters' expectations and, consequently, more money is required to meet the objectives than was originally anticipated. If the company requires more money, the venture capitalist may even be prepared to invest additional money on short notice with no costly and lengthy prospectuses or unfavourable operating results to live down. On the other hand, public companies may not enjoy this kind of flexibility in their access to financing.

3. Raising money through a new issue of shares to the public is a long and precarious process involving a good degree of timing and luck. Many medium sized companies, after a sincerely favourable and honestly enthusiastic expression of interest by an underwriter, have started down the long (three to six months) and expensive ($25,000 to $75,000) road to a public offering only to find that, by the time all hurdles had been cleared, stock market conditions had so changed that an underwriting could not be made successfully. Venture capital as a form of financing usually involves less time as no prospectus is necessary and less direct expense. In addition, the financing itself is seldom dependent upon the short-term swings of the stock market. For a company not dependent on public financing, the collapse of the new issue stock market is not a setback to the financing.

4. The recent collapse of the market for junior stocks may yet turn out to be a good thing for private companies. As long as the new issue

market was running wild, there was a temptation to float new companies chiefly to merchandize them on the new issue market. The result was that many companies and many individuals were financed who had no business being financed. Others were rushed to market before they were ready, frequently with unfortunate results both for investors and entrepreneurs.

To summarize, venture capital is a financing stage prior to going public that manifests itself in a wide variety of types of deals. The investor expects to reap large rewards, but is willing to accept the higher risks of a smaller, less stable company. From the company's point of view, it receives an interested, experienced and usually helpful shareholder who is prepared to back it when others probably would not. It allows the company's management to get used to the glare of public scrutiny in a more leisurely fashion than going public directly does.

Venture capitalists do not ordinarily compete with the underwriters of public issues. In fact, an eventual public underwriting is frequently the ideal way for venture capitalists to repatriate their investment. They recognize that, when companies become sufficiently large and profitable, financing must then be arranged by the established underwriters.

An Indirect Approach To Start-Up Financing

Many prospective entrepreneurs have been frustrated by their complete inability to interest strong investors in their product or service concept. Many have merely given up. It must be recognized that investors have a right to be hard-nosed. Frequently, the bulk of the risk is theirs. It is simply not that easy to interest investors in an absolutely untried production process or service. The would-be entrepreneur faced with a rejected start-up might consider the following alternative.

Look for a small to medium size business that is currently for sale. By purchasing a going concern, the entrepreneur may gain a number of benefits, all of which may be used to launch his own new dream product or service. The benefits from a going concern may include:

i) immediate profits;

ii) unused productive capacity;

iii) immediate sales force and channels of distribution;

iv) a built-in management team;

v) a good lesson in running a going concern;

vi) an opportunity to reduce fixed costs;

vii) an established product line to fall back upon when the start-up product hits tough going;

viii) other income to absorb probable start-up losses;

ix) established access to funds.

Ironically, it may be significantly easier to finance the acquisition of an existing profitable business than to raise money for a complete start-up. Once the going concern is acquired the start-up product or service may be added to the existing product lines.

It would be a gross misrepresentation to portray the acquisition of a going concern as the panacea to the would-be entrepreneur. On the contrary, the acquisition of an established business may merely double management's headaches. For every advantage previously cited, there is obviously a related disadvantage. The cumulative effect of these disadvantages may hamper or kill any opportunity to really develop the start-up product. Nevertheless, as an alternative, it has its place but the greatest care must be taken to find the right vehicle.

.4 Government Assistance—Some Things To Keep In Mind

1. Leave No Stone Unturned—
   No financing program is complete unless the company has thoroughly researched the availability of government assistance. Federal and provincial programs are increasing in number, scope and flexibility. The assistance takes many forms: cash grants, cost-sharing, repayable loans, forgivable loans, technical assistance and even equity participation.

2. Debt-Equity Balance—
   To the extent that government assistance is available by way of loan (debentures, mortgages, etc.), the company can create a capital structure which has a balance of debt and equity. The founders may then be required to contribute only the equity.

3. Seek Prior Approval And Avoid Prior Commitment—
   Under many of the programs, assistance is available only to companies which:
   i) obtain prior approval of the project from government;
   ii) have no prior commitment or contractual obligation to undertake the project before applying for government assistance;
   iii) are able to demonstrate that they would be unable to undertake the project without government assistance.

4. The Programs Are Flexible—
   While each program has its own literature describing the scope, purpose and objectives of the program, a potential applicant should not be discouraged from enquiring and applying even though the project does not fit squarely within the

program. The applicant may be surprised to find that he fits into:

i) a special exception under the program;
ii) assistance under another program.

5. Be Prepared To Demonstrate—
   i) That the applicant company has the technical, marketing, manufacturing, financial and managerial skills to carry out the project;
   ii) The benefits to Canada in terms of:
      1. employment,
      2. expansion of other industries and services,
      3. use of Canadian manufactured goods.
6. Be prepared to show to government the same kind of comprehensive business plan that a potential equity investor expects to see.
7. Involve the whole management team (including technical people) in the approach to government.

4.5 Government Assistance— An Overview Of The Various Federal Government Assistance Programs*

4.5.1 General Assistance Programs—Federal

1. Counselling Assistance to Small Enterprises (CASE)—

   At present available in two locations on a trial basis:

   a) Within a 70-mile radius of Montreal;
   b) Within the rough triangle formed by joining Winnipeg, Portage La Prairie, Brandon, Bluenort and Emerson.

**Readers seeking more detailed information on government assistance programs are referred to:*

1. *Industrial Assistance Programs in Canada—1972 Prepared by CCH Canadian Limited in co-operation with P. E. McQuillan and P. G. Donaldson.*
2. *Brochures and pamphlets on each program prepared by the government agency administering the program.*
3. *Act and regulations (where applicable) under which the program or agency was established.*

It will be extended to other locations in future. The program is available to small manufacturers and tourist concerns. Experienced businessmen are made available for counselling under the program which costs the small business two-thirds of the counsellor's daily fee of $30. Under certain circumstances external consultants may be retained to diagnose problems and make recommendations with the government paying up to one-half of the cost of their services.

Direct inquiry to: Local Department of Industry, Trade and Commerce office.

2. Development of Management Courses—

   Assistance in the form of a government grant (maximum $50,000) to cover up to 75 per cent (and in special cases 100 per cent) of the costs of developing or upgrading management courses is available to non-profit professional, industrial, business or management associations.

   Direct inquiry to: Office of Industrial Policy Adviser, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

3. General Adjustment Assistance Program (GAAP)—

   Assistance in the form of loan guarantees is available to all manufacturers for the establishing or restructuring of operations to take advantage of new export opportunities or to improve international competitive position. Under certain circumstances firms in the service industry can also qualify.

   Assistance in the form of direct loans to manufacturers is available for restructuring operations where there are injuries or threats of injury from import competition and when insured loans cannot be obtained.

Assistance to eligible firms to engage external consultants is available on a shared-cost basis for developing restructuring proposals.

Direct inquiry to: General Adjustment Assistance Office, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

4. Industrial Design Assistance Program (IDAP)—

Available to companies seeking to introduce or expand their industrial design efforts, assistance involves a cost-sharing of up to 50 per cent of the costs of specific projects of innovative product design.

Direct Inquiry to: IDAP Program Office, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

5. Industrial Development Bank (IDB)

Assistance is available to help establish, expand or modernize almost all kinds of Canadian businesses with particular emphasis on the needs of the small businessman. Assistance usually involves long-term loans to finance capital expenditures and, in some cases, to improve working capital with the IDB taking a first charge on the fixed assets as security. IDB is also empowered to make equity investments.

Direct inquiry to: Any one of 52 regional and branch offices.

6. Industrial Research Assistance Program (IRAP)—

This is a cost-sharing program under which salaries of research staff may be paid by the government.

Direct inquiry to: The Secretary, National Research Council, Committee on Industrial Research, Montreal Road, Ottawa K1A 0R6.

7. Industrial Research and Development Incentives Act (IRDIA)—

Assistance is available under this act to Canadian companies in the form of a grant of 25 per cent of capital expenditures made on research and development and 25 per cent of current expenditures on research and development made in Canada in excess of a moving base amount.
Direct Inquiry to: IRDIA Program Office, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

8. Program for the Advancement of Industrial Technology (PAIT)–

   Assistance is made available to Canadian manufacturing companies to undertake and implement specific scientific research and development projects which have a good possibility of commercial exploitation. Assistance is a cost-sharing of up to 50 per cent of the costs of research, development, design and market survey of a specific product or process.
   Direct inquiry to: PAIT Program Office, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

9. Program to Enhance Productivity (PEP)–

   Grant of the lesser of $50,000 or 50 per cent of the approved costs of feasibility of studies for production improvement projects is available to companies to explore the commercial feasibility of products or processes which involve existing available technology but which would be new to the company itself.
   Direct inquiry to: PEP Program Office, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

10. Program For Export Market Development (PEMD)–

    Provides cost-sharing assistance up to 50 per cent of eligible costs to companies attempting to

stimulate export sales. Government assistance is repayable by companies attracting exports successfully.

The following costs are eligible:

a) preparing bids on capital projects abroad;
b) identifying foreign markets and adjusting marketing procedures to penetrate the overseas market;
c) participating in trade fairs abroad;
d) bringing prospective foreign buyers to Canada.

Direct inquiry to: PEMD Program Office, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

11. Regional Development Incentives Act (RDIA)—

The intention of the act is to establish new manufacturing and processing facilities in designated regions of high unemployment and slow economic growth. Cash grants and loan guaranties are available based on capital investment in the operation and on the number of jobs created.

In certain circumstances, a loan guaranty may be authorized for facilities that include such non-manufacturing activities as business offices, warehouses, shopping centres, hotels and recreational facilities in centres of large population.

Direct Inquiry to: Local Department of Regional Economic Expansion Office.

12. Small Business Loans Act—

Loans are made available to small business enterprises (gross revenue less than $500,000) to acquire fixed assets or improve premises. The loan may not exceed $25,000 and is made at a subsidized interest rate from a Canadian chartered bank under a Department of Finance guaranty.

Direct inquiry to: Chief, Guaranteed Loans Administration, Department of Finance, Ottawa

K1A 0G5.

13. Machinery Program—

Under this program, duty is remitted on certain machinery and equipment not available in Canada. It also serves to protect Canadian manufacturers of production machinery and components from foreign competition.

Applications may be for a single entry or for several contemplated entries over a period of up to 12 months.

Direct inquiry to: Machinery and Equipment Advising Board, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

.2 Specific Industry Assistance Programs—Federal

1. Canadian Film Development Corporation (CFDC)—

The corporation will invest in individual Canadian feature film productions in return for a share of proceeds. The investment may be by way of loan or grant.

Direct inquiry to: Canadian Film Development Corporation, Suite 18, Lothian Mews, 96 Bloor Street West, Toronto 5, Ontario.

2. Commercial and Fishing Vessels Subsidies Program (SCSR)—

The assistance is in the form of subsidies to help shipbuilders to construct ships in Canada at competitive prices.

Direct inquiry to: Transportation Industries Branch, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

3. Defence Industry Productivity Program (DIPP)—

Assistance is available to Canadian companies to develop and sustain the technological capability of Canadian defence industry for the purpose of defence export sales, or civil export sales arising from this capability.

Assistance is in the form of a cost-sharing of up to 50 per cent of the total cost of research and development.

Eligible capital expenditures are financed by a 50 per cent cash grant and a loan for the balance repayable to the government over a five-year period.

Direct inquiry to: Defence Industry Productivity Program, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

4. Defence Industry Research Program (DIRP)—

   Assistance is made available by means of a 50 per cent cost-sharing of costs incurred for defence-oriented research and development.

   Direct inquiry to: Defence Research Board, 125 Elgin Street, Ottawa.

5. Export Development Corporation (EDC)—

   EDC provides assistance by:

   i) insuring Canadian exporters of goods and services against non-payment by foreign buyers;
   ii) providing long-term financing to Canadian exporters of capital equipment;
   iii) making loans to foreign entities for the purchase of Canadian goods and services;
   iv) insuring Canadian investments in certain foreign countries;
   v) guarantying Canadian financial institutions against losses arising from financing a foreign buyer.

   Direct inquiry to: Export Development Corporation, P.O. Box 655, Ottawa K1P 5T9.

6. Pharmaceutical Industry Development Assistance Program (PIDA)—

   PIDA provides direct loans on a last resort basis to manufacturers of drugs sold in dosage

quantities to reorganize their manufacturing, marketing, distribution and research.

Direct inquiry to: Pharmaceutical Industry Development Assistance Program, Department of Industry, Trade and Commerce, 112 Kent Street, Ottawa K1A 0H5.

7. Other Programs–
   Northern Mineral Exploration Assistance Program
   Farm Credit Corporation
   Farm Improvement Loans
   Federal Farm Syndicates Credit Act
   Fisheries Improvement Loans.
   Agriculture and Food Products Market Development Assistance Program
   Grains and Oilseeds Marketing Incentives Program

6 Government Assistance– An Overview Of Various Provincial Government Assistance Programs

6.1 Alberta

1. Alberta Opportunity Company–

   The company may make term loans for acquisition of fixed assets, may guaranty loans made by banks and may make or guaranty inventory loans. The company may defer principal and interest payments for up to 30 months.

   The company may also lend or guaranty up to $10,000 of research and development expenditures. The regulations to the Alberta Opportunity Fund Act provide for the establishment of local development organizations–companies, associations and groups formed for the purposes of stimulating industrial development and expansion within their communities.

Direct inquiry to: Alberta Opportunity Company, Department of Industry and Tourism, Centennial Building, Edmonton, Alberta.

4.6.2 Manitoba

1. Manitoba Development Corporation (MDC)—

   Assistance takes the following forms:

   i) Mortgage loans and, in certain circumstances, working capital and equity financing are available to manufacturers, tourist and recreational facilities.

   ii) Financing to community development corporations to build plants to lease to new industries.

   Direct inquiry to: Manitoba Development Corporation, 428 Portage Avenue, Winnipeg 1, Manitoba.

2. Incentives Program For Industry—

   There are six programs available involving a cost-sharing arrangement to a maximum of $20,000 for a two-year period. The program shares:

   i) research and development costs;
   ii) production feasibility studies;
   iii) technical improvement studies;
   iv) design improvement;
   v) export development costs;
   vi) manpower development costs.

4.6.3 New Brunswick

1. New Brunswick Development Corporation—

   The corporation provides direct loans or guaranties loans as a lender-of-last-resort. Security is usually a first mortgage. In addition, the corporation does economic studies of market, resources, labour, transportation and economic viability.

Direct inquiry to: Deputy Minister, Department of Economic Growth, Province of New Brunswick, Fredericton, New Brunswick.

2. New Brunswick Industrial Finance Board—
   The board makes direct loans or guaranties loans and bond issues. Loans are made only to manufacturers and are secured by first mortgage.

3. New Brunswick Research and Productivity Council—
   The council offers free technical information services and limited industrial engineering consulting services in conjunction with the National Research Council.

3.4 Newfoundland

1. Newfoundland Labrador Development Corporation—
   Loans at competitive rates to a maximum of 300 per cent of the owner's equity and equity investments, in some circumstances, to help companies meet equity requirements of federal programs administered by the Department of Regional Economic Expansion for small to medium-sized businesses. Application will not be accepted for projects involving a capital cost in excess of $1 million. In addition, the corporation will be carrying out a management advisory program.
   Direct inquiry to: Department of Industrial Development, Confederation Building, St. John's, Newfoundland.

2. Rural Development Authority Project—
   The purpose of this project is to look for guidelines which could be followed in developing a formal assistance program to small enterprises located in rural areas of the province. In addition,

the project is employing industrial development officers who will assist local entrepreneurs to obtain interest-free loans from the Government of Newfoundland to enable them to expand operations and thereby create additional job opportunities. Maximum loan is $10,000.

Direct inquiry to: Rural Development Authority Project, Director, Rural Development Authority, Department of Rural Development, Confederation Building, St. John's, Newfoundland.

4.6.5 Nova Scotia

1. Industrial Loan Board—

   Loans are made by the board not exceeding 75 per cent of the value of lands, buildings, equipment and other assets provided by the borrower as security.

   Direct inquiry to: The Secretary, The Industrial Loan Board, Department of Trade and Industry, Halifax Insurance Building, 5670 Spring Garden Road, P.O. Box 456, Halifax, Nova Scotia.

2. Industrial Estate Limited—

   IEL will finance up to 100 per cent of the cost of land and buildings and up to 60 per cent of installed cost of new machinery. Municipal taxes may also be reduced.

   Direct inquiry to: Industrial Estate Limited, Suite 1006, 5161 George Street, Halifax, Nova Scotia.

4.6.6 Ontario

1. Ontario Development Corporation (ODC) and Northern Ontario Development Corporation (NODC)—

   The corporations assist companies by:

   i) interest-free forgivable loans for location in provincially-designated areas;

ii) industrial mortgages and leasebacks;
iii) term loans for financing of export sales, inventories held for export or production for export;
iv) term loans to high technology companies;
v) term loans to acquire pollution control equipment;
vi) loans to small businesses (equity less than $300,000);
vii) tourist industry loans to resort operators.

Direct inquiry to: Ontario Development Corporation, 950 Yonge Street, Toronto 5, Ontario; or Northern Ontario Development Corporation, Liaison Officer, Mowat Block, Queen's Park, Bay and Wellesley Streets, Toronto 182, Ontario.

2. Ontario Industrial Training Assistance—
Grants of up to 100 per cent of the instructor's salary and up to 50 per cent of the employee's salary will be paid during an industrial training program that may involve on-the-job training.

Direct inquiry to: Industrial Training Branch, Ministry of Colleges and Universities, Toronto, Ontario.

7 Prince Edward Island

Industrial Enterprises Incorporated—
The corporation is empowered to:
i) purchase, develop and lease industrial sites;
ii) make first mortgage loans on facilities such as land, buildings, machinery and equipment;
iii) make equity investments;
iv) make loan guaranties.

Direct inquiry to: Industrial Enterprises Incorporated, Suite 304, 159 Kent Street, Charlottetown, Prince Edward Island.

4.6.8 Quebec

1. Quebec Industrial Development Corporation (QIDC)–

   Assistance is provided to manufacturers and processors by means of:

   i) low interest term loans;
   ii) loan guaranties;
   iii) forgivable loans;
   iv) construction and leasing of plants;
   v) direct equity investment;
   vi) leasebacks.

   Direct inquiry to: Department of Industry and Commerce, Government of Quebec, 710 Place d'Youville, Quebec 4, Quebec.

2. Quebec Department of Labour Assistance–

   Cash grants in the form of training premiums are paid to manufacturers and processors hiring otherwise unemployed workers.

3. Quebec Tax Reduction–

   A significant reduction of Quebec income tax is given to manufacturers making capital investment in the period to March 31, 1974.

4.6.9 Saskatchewan

1. Industry and Commerce Development Act, 1972–

   Assistance under the act takes the form of:

   i) grants to business enterprises whose continued operation is threatened and its loss would seriously disrupt the social and economic base of the community in which the business enterprise is located–maximum grant is $5,000 per job saved;
   ii) grants or loans for the establishment of new business in slow-growth areas, for the modernization or expansion of small businesses and for the development of the tourist industry in Saskatchewan;

(Note: Application must precede any commitment in order to qualify for a grant.)

iii) consulting services.

Direct inquiry to: Director of Business Assistance Branch, Department of Industry and Commerce, Saskatchewan Power Building, Regina, Saskatchewan.

2. Saskatchewan Economic Development Corporation (SEDCO)–

Loans are made to industrial enterprises generally secured by way of mortgage on realty and chattels. The interest rate charged is 1½ per cent greater than the bank prime rate. There is no maximum or minimum loan. SEDCO may also build and lease industrial sites and make grants to industrial enterprises for research or the improvement of technical skills.

Direct inquiry to: Saskatchewan Economic Development Corporation, Saskatchewan Power Building, Regina, Saskatchewan.

3. Industry Incentives Act–

Under this act, forgivable loans are made to manufacturing companies. The amount of the forgivable loan depends on capital expenditures made and jobs created.

Direct inquiry to: Department of Industry and Commerce, Saskatchewan Power Building, Regina, Saskatchewan.

SECTION 5

PROFILES OF THE CANADIAN VENTURE CAPITAL GROUPS

1 A Word Of Warning

These profiles have been prepared from information supplied by each venture capital company. The views expressed are, therefore, not those of the authors. There is also no guarantee that the information is complete and accurate. Although every effort has been made to include in this section every venture capital group in Canada, there are undoubtedly other groups who did not make themselves known for publication purposes. Furthermore, statistical information becomes quickly outdated. The following profiles were prepared in the period September to December, 1972.

.2 Venture Capital Sources By Preferred Range Of Investment

These profiles have been prepared to assist those in need of financing by helping them to identify prospective suppliers of equity.

Every company mentioned in this profile requires that written submission precede any request for a personal interview.

Those seeking funds should not make a blanket written submission to every company described herein. The approach should be selective. Entrepreneurs should identify those suppliers of equity who have expressed interest in their:

1. stage of development;
2. industry;
3. location;
4. size of financing required.

The following table summarizes the preferred size of investment as indicated by the venture capital groups. Most of the firms will consider investments that are outside of their preferred range.

Preferred Range of Investment			Profile Number of Firms (5.3 omitted)
$ –0–	to	$ 100,000	3 4 7 8 9 11 13 16 21 24 26 29 30 31 35 36 42 45 46 48 49
$100,000	to	$ 250,000	1 4 5 6 7 13 15 16 17 18 20 21 26 29 31 32 33 34 36 38 40 42 44 45 46 48 49
$250,000	to	$ 500,000	1 5 7 13 14 15 17 19 26 27 29 31 32 34 36 40 41 42 47 49
$500,000	to	$1,000,000	1 2 5 13 14 19 22 23 27 28 31 32 40 41 49
Seven firms do not indicate a preference			10 12 25 37 39 43 50

5.3 **Profiles Of The Canadian Venture Capital Groups**

The profiles which follow are arranged alphabetically within the five geographic (west to east) headings:

British Columbia
Alberta
Ontario
Quebec
Coast to Coast

BRITISH COLUMBIA

3.1 Athabasca Columbia Resources Ltd.
1550 Alberni Street
Vancouver 5, British Columbia
Tel: (604) 682-8484

Direct inquiry to:
Douglas A. C. Davis

General Information

Athabasca Columbia Resources Ltd. is a publicly-held corporation which has been engaged in venture capital financing since 1965. The company has a full-time staff of five with access to a variety of specialists employed by subsidiary and associated companies. At present, it has total assets of $4,500,000 with most of its invested funds in debentures plus common stock. It has invested in such companies as: Kenai Trucking (1969) Ltd.; Executive House Ltd.; Village Green Hotel Ltd.; Anmore Recreations Ltd.; Inversora Commercial S.A.; Kaunakakai Resources Inc.

Operational Approach

Athabasca Columbia Resources Ltd. has a strong preference for investment in transportation, construction, development and natural resource opportunities located anywhere in Western Canada or the Yukon. The company is interested in investing in development, expansion and buy-out situations preferably in the $200,000 to $1,000,000 range. Although the company at present holds control positions in a number of its investments, it is not corporate policy always to take a controlling interest. Similarly, although board representation is required for the purpose of monitoring the investment, the company will not necessarily require control of the board of directors.

Venture Analysis

Athabasca Columbia Resources Ltd. will not normally participate in a new investment unless the situation is backed up by the existence of a complete management team and a demonstrable skill in market planning and technical research. Although the company has not participated in a syndication to date, it is willing to consider investment opportunities involving other venture capitalists.

5.3.2 Cornat Industries Limited
Suite 507
1030 West Georgia Street
Vancouver 5, British Columbia
Tel: (604) 683-7681

Direct inquiry to:
Peter Paul Saunders
William E. Donnelly

General Information

Cornat Industries Limited is a public company (Toronto and Vancouver Stock Exchanges) with more than 5,000 shareholders. Engaged in venture capital financing since 1970, the company has total assets of $52 million. Its major acquisitions and/or investments include Coronation Credit Corporation Limited, B.C. Ice & Cold Storage Ltd., Johnston Terminals Limited and Burrard Dry Dock Company Limited. These companies and their various subsidiaries function both regionally and nationally.

Operational Approach

Cornat will invest in all types of business with a preference in manufacturing, processing, storage, distribution and transportation. Investment will be made from the start-up stage through all development stages to buy-outs. The size of its investments has ranged from $100,000 to $10 million, investment of $2 million and more being preferred. No geographic restrictions are placed on the entrepreneur. The company's largest form of investment has been common stock. An annual rate of return of 20 per cent or better is expected on invested capital. New investments should have continuing and experienced management and should be serving an established market with a satisfactory growth potential. Cornat maintains contact with portfolio companies by way of executive committee and board representation, financial controls such as limiting investment and purchasing authority, financial reports and continuous staff liaison.

Venture Analysis

A company is initially expected to have a complete management team at the earliest stage of an investment. It is not policy to supply on-going management but Cornat does assist in the development and/or finding of on-going management from inside and outside sources.

.3 Quadra Pacific
Management Ltd.
#101 - 1956 West Broadway
Vancouver 9, British Columbia
Tel: (604) 731-5249

Direct inquiry to:
William Marshall
Richard Norgan

General Information
Quadra Pacific Management Ltd. has been involved in venture capital financing for the past year. The company at present holds investments in four companies, all in the real estate field.

Operational Approach
Quadra Pacific Management Ltd. is looking primarily for start-ups located in British Columbia. Although the company does not necessarily take a controlling interest in the applicant's company, it does seek control of the board of directors. Generally, real estate situations interest the company most although it is not reluctant to consider situations arising in the other industries. Quadra Pacific Management Ltd. has invested $150,000 in one deal. However, the preferred range of investment is $30,000.

Venture Analysis
An investment should be capable of yielding Quadra Pacific Management Ltd. 20 per cent per annum. The entrepreneur should be able to display competence in all areas of business planning, as Quadra Pacific will only supply ongoing management to a limited extent.

3.4 Ventec Investments Ltd.
Suite 2507
Board of Trade Tower
1177 West Hastings Street
Vancouver 1,
British Columbia

Direct inquiry to:
H. A. Hoyles, P. Eng.,
President
D. H. J. Kay, P. Eng.,
Vice-President
R. S. Milner, C.A.,
Treasurer
H. W. Lee, Secretary

General Information
Ventec Investments Ltd. was formed in May, 1972, to provide venture capital financing in the high technology fields. The company is actively seeking portfolio investments in the $50,000 to $250,000 range. It is anticipated that most investments will be made by way of units of subordinated debt and common stock. Ventec believes that

companies in which it invests will benefit from the particular director/management team structure. Each Ventec director has developed and is currently active in managing his own successful enterprise. The company stresses the importance of effective management information and control systems and will provide necessary working capital if required for their implementation.

Operational Approach

Ventec is interested in high technology product or service firms including those operating in the fields of electrical, electronic and electro-mechanical manufacturing; cable television systems; pollution control devices; radio and television stations; and data equipment. There are certain industries in which Ventec would be reluctant to invest. These include: building materials; construction; development; food and beverages; forest products; natural resources; and retailing. Ventec will invest anywhere in Canada but preference is given to situations arising in Western Canada, particularly when there are no other venture capitalists participating who geographically could more effectively monitor the investment. Ventec will normally require a seat on the board of directors, but would only seek control of the enterprise when an investment is grossly mismanaged or, for other reasons, involving severe jeopardy.

Venture Analysis

Based on the nature of the applicant's business, three of Ventec's 10 directors are selected to assess the investment opportunity. If the project is initially approved, this committee then submits the proposal to the full board. The decision-making process can be completed in two weeks but usually takes 30 to 60 days. Ventec places emphasis on the abilities of the key man or team in the applicant's organization. He or they must be able to organize, develop and execute, either directly or through others, those financial, technical, marketing, manufacturing and other related skills which will enable both the applicant and Ventec to realize the return they expect. Ventec would participate actively in the management of the applicant's operation should the need arise and would expect to charge a fee for any such management services. Board representation, appraisal of monthly financials and management reports will form the basis of Ventec's investment review process.

3.5 Ventures West Capital Ltd.
804-470 Granville Street
Vancouver 2, British Columbia
Tel: (604) 688-9495

Direct inquiry to:
Michael Brown
J. Haig Farris
Jack R. Jefferson

General Information

Ventures West Capital Ltd., as of January, 1973, has entered the field of venture capital financing. The company is managed by the three principals of the financial consulting firm of Brown, Farris and Jefferson Ltd., a wholly-owned subsidiary of Ventures West. The initial capitalization is $4.0 million of which the Canada Development Corporation has subscribed for slightly more than $2 million. Other major shareholders include the Bank of British Columbia, the Bank of Tokyo, the Guaranty Trust Company, Mitsui and Co. (Canada) Ltd. and Mitsubishi Canada Ltd. In addition to its venture capital activities, the company will act as merchant banker for particular projects.

Operational Approach

Ventures West Capital Ltd. will invest from $100,000 to $700,000 in any one investment opportunity. If additional equity financing is necessary it will joint venture with its shareholders and with other financial institutions. Although the company may participate in deals arising anywhere in Canada, it will only initiate financings in the four western provinces and in the north. Development and expansion situations will be of greatest interest to Ventures West, although a start-up accompanied by management with good experience would be considered. In all cases the applicant must have the potential of becoming significant in size. If a control position is taken, an earn-back could be part of the venture capital agreement. Ventures West has no restrictions on the industries in which it will invest but management anticipates that it will have a strong orientation to natural resource and related service situations in Western Canada and the north. Most deals will include performance standards which will be tied in to the applicant's original forecasts—the basis of Venture West's original investment.

Venture Analysis

Ventures West Capital Ltd. feels that there are three important ingredients of success which must exist in a company before it will seriously consider making an investment. The entrepreneur must be involved in the

company on a risk basis, and the marketing plans must be complete. If a production process is involved, plans must be proved operational on the scale intended. Except for start-ups, all important management functions must be in place. Investments will be monitored by board of director representation, periodic financial statements and access to the books and records of the company.

ALBERTA

5.3.6 Cavendish Investing Ltd.
2618 Calgary Place
330-5th Avenue Southwest
Calgary, Alberta
Tel: (403) 269-6795

Direct inquiry to:
R. A. N. Bonnycastle
W. G. Crerar
W. F. Willson

General Information
Cavendish Investing Ltd. is a privately-held company which has been operating in the field of venture capital financing since 1967. The greatest dollar value of its invested funds is in common stock. Two of the company's more recent investments have been Universal Gas Ltd. (gas exploration) and Consolidated Bear Industries Ltd. (oilfield services).

Operational Approach
Cavendish Investing Ltd. prefers investments in the $100,000 to $250,000 range in manufacturing, high-technology and natural resource industries. Generally, the company will consider situations arising outside of Alberta with the exception of the Maritimes and Quebec. The company is reluctant to invest in the following areas: forest products, construction and development. Although Cavendish prefers investing in development, expansion and turn-around situations, the company will consider start-ups and buy-outs. Cavendish requires one seat on the board of directors of companies in which it invests. In addition to board representation and the usual financial statements, Cavendish prefers to monitor its investments by means of direct personal communication between R. A. N. Bonnycastle (Cavendish's president) and the entrepreneur.

Venture Analysis
Cavendish Investing Ltd. will consider investment oppor-

tunities even if there has been insufficient planning of the financial, marketing and production aspects of the operation. In other words, the skills normally attributable to a complete management team may be attained subsequent to an investment by Cavendish. The company is not interested in supplying any missing management skills itself except on a consultative basis.

.7 Richard Hansen Associates Ltd.
Suite 2910
One Calgary Place
Calgary, Alberta T2P 0L4

Direct inquiry to:
S. R. Hansen

General Information
Privately-held Richard Hansen Associates Ltd. has been providing venture capital financing for the past five years. The company is closely related to Harcourt Development Corporation Ltd. of Calgary and, through Harcourt, is associated with Toronto-based Bird Construction Company Limited. To date the company has concentrated on real estate development, sand and gravel and mining and oil ventures.

Operational Approach
Richard Hansen Associates Ltd. prefers investments in the $50,000 to $300,000 range. The company likes to use convertible debentures or debentures plus warrants as its principal investment instrument. It is company policy to actively solicit participation by other venture capitalists in almost any deal. Richard Hansen Associates Ltd. does not want to be in a control position. Generally, the company will consider any small industrial operation as a likely candidate for investment. However, there is a reluctance to participate in ventures involving transportation, medical products and services, forest products or high technology situations. Start-up, development and buy-out situations interest the company more than other stages of corporate growth. The company prefers to invest in Alberta and British Columbia. However, with an office opening in Toronto shortly, the company will be able to serve the eastern market as well.

Venture Analysis
Richard Hansen Associates Ltd. places emphasis on the

entrepreneur's ability to assess the market for his product. This skill must be demonstrable before an opportunity can be seriously considered. It is expected that financial planning assistance may be required by the applicant and this is available from the company or from its associates. However, the applicant should be able to complete his own management team as the company would prefer not to have to supply on-going management. Investments are monitored by monthly financial statements and board of director representation (either directly or through a nominee). In addition, large or risky positions may be safeguarded by the use of semi-annual audits of the entrepreneur's operation.

5.3.8 Macrovest Limited
440 Standard Life Building
639 5th Avenue Southwest
Calgary, Alberta T2P 0M9

Direct inquiry to:
E. Keith Conrad
David B. Robson

General Information

Privately-held Macrovest Limited has been engaged in venture capital financing since 1970. At the present time, the company holds a position in four companies having used common stock as its principal instrument of investment.

Operational Approach

Macrovest Limited prefers to invest in industrial services, manufacturing, construction, development and natural resources, located in Alberta. Opportunities originating anywhere in the Prairie Provinces or in British Columbia would be considered. The company looks most favourably on investments in the $25,000 to $75,000 range but is willing to initiate or participate in a syndication where a greater amount of financing is required. Macrovest does not ordinarily take a controlling interest but it does expect representation on the board of directors. It is expected that an investment will be turned over in approximately five years. In addition to a seat on the board, the company requires monthly financial statements and marketing forecasts in order to monitor its investments.

Venture Analysis

As Macrovest Limited is principally interested in investing in the initial stages of corporate growth, the applicant is

not expected to have a complete management team or to have completed his financial and market planning. However, the company does expect that the enterprise will have completed any necessary production planning. Macrovest is not in a position to supply on-going management except to a very limited extent. Therefore, the entrepreneur will be responsible for the acquisition of those management skills which may have been lacking at the time of application.

ONTARIO

9 Anmercosa Ventures Limited
P.O. Box 28
Toronto Dominion Centre
Toronto, Ontario M5K 1B8
Tel: (416) 362-2192

Direct inquiry to:
A. B. Ormsby, Treasurer

General Information

Anmercosa Ventures Limited is a wholly-owned subsidiary of Anglo American Corporation of Canada Limited. The company has one full-time staff member who manages total investments of $1.7 million. The company entered the venture capital financing field in 1968 and now holds a position in 10 companies.

Operational Approach

Anmercosa Ventures Limited has invested in hospital and computer service situations in the past with favourable results. The company shows a strong preference for service industries in general as well as opportunities in technological and natural resource areas. The company prefers to invest in Ontario but will consider situations originating in the Prairies, British Columbia and Quebec. The company is reluctant to consider investment in construction and development, forest products, manufacturing and wholesaling. Although funds invested in any one deal have ranged from $50,000 to $450,000, the objective is to confine initial investments to the $50,000 range. The greatest dollar value of funds invested is in common stock. Ordinarily, controlling interest is not taken and, although board representation is required, the company does not wish to control the board. The company has some definite views on how an investment should be monitored and safeguarded. Monthly financial statements must be

provided and cash disbursements are strictly controlled (with some relaxation allowed once a company has reached a cash break-even operating situation). In addition, senior management is required to sign non-competition employment contracts.

Venture Analysis

While Anmercosa Ventures Limited is an active investor, the applicant is expected to be capable of managing his day-to-day operations. Anmercosa will assist in the procurement of new or replacement management and in the formulation of corporate goals and policies. Financial guidance is provided but the applicant should be able to demonstrate a good business plan and an adequate management team relative to its stage of development.

5.3.10 Boyd, Stott & McDonald Limited
P.O. Box 110
Toronto Dominion Centre
Toronto, Ontario M5K 1G8
Tel: (416) 364-8146

Direct inquiry to:
W. H. McDonald

General Information

Boyd, Stott & McDonald Limited, a private company, has been engaged in a variety of venture capital financing activities over the past seven years. The company is closely associated with the Morguard Trust Company.

Operational Approach

Boyd, Stott & McDonald Limited will consider almost all types of business for investment. The company does not place any geographical restrictions on situations in which it will invest. Emphasis is placed on the establishment of new companies particularly in high-technology fields. In the past, the company has made use of the full spectrum of investment instruments attempting to tailor the financial package to the unique characteristics of each situation.

C G I & Third Venture Capital
Limited
Suite 1702
110 Yonge Street
Toronto, Ontario M5C 1T8
Tel: (416) 366-2931

Direct inquiry to:
Alex E. Barron

General Information

C G I & Third Venture Capital Limited is a private corporation 90 per cent owned by Canadian General Investments Limited. The company has assets of approximately $500,000 with the largest portion of its invested funds in the common stock of companies in high-technology industries. At present, the investment decisions are made by a committee of four.

Operational Approach

C G I & Third Venture Capital Limited is interested in investing at all stages of the corporate life cycle. However, the company prefers not to invest in a buy-out situation. Although investments as large as $110,000 have been made, preference is given to opportunities in the $25,000 to $50,000 range. Investments are not restricted geographically. The company does not take a controlling interest nor does it require board of director representation. Instead, investments are monitored by personal contact with management and analysis of interim and annual reports.

Venture Analysis

C G I & Third Venture Capital Limited requires that an applicant demonstrate definite planning skills in the areas of finance, marketing and production. The applicant must have completed any technical research required in respect of his promising product or new service. The company does not normally supply on-going management to the companies in which it invests. Therefore, although managerial assistance is available to a limited extent, the onus is upon the entrepreneur to develop his own management team.

5.3.12 Canada Overseas Investments Limited
P.O. Box 117
Suite 4703
Toronto Dominion Centre
Toronto, Ontario M5K 1G8
Tel: (416) 363-0841

Direct inquiry to:
Michael M. Koerner

General Information

Privately-held Canada Overseas Investments Limited has been operating in the field of venture capital financing since 1959. The company has made investments from $25,000 to $1 million and has initiated and participated in syndications in the past.

Operational Approach

Canada Overseas Investments Limited uses common stock as its principal instrument of investment. The company will supply capital required to develop the "promising" idea to the prototype stage or assist the entrepreneur in defining his market. In addition, the company will finance applicants in the start-up and development stages of corporate growth. The company shows no strong preferences for any type of business venture nor does it place any geographical restrictions on the origins of the venture. Ordinarily, representation on the board of directors is required.

Venture Analysis

Canada Overseas Investments Limited takes a generally negative attitude towards brokers and middlemen. The company is not capable of supplying on-going management and it is therefore advisable to have a credible management team. The investments are monitored by board participation and by direct and continuing contact with management.

Canadian Corporate Management Company Limited
Suite 2080
Commerce Court West
P.O. Box 131
Commerce Court Postal Station
Toronto, Ontario M5L 1E6
Tel: (416) 868-0590

Direct inquiry to:
J. B. Clarke

General Information
Canadian Corporate Management Company Limited is a publicly-held (Toronto Stock Exchange) holding and operating company. It has invested in a variety of companies including The Canadian Chromalox Company, The Larkin Lumber Company Limited, Jelinek Sports Limited and Thermetic Controls Limited. One member of the Canadian Corporate Management staff has full-time responsibility in the area of venture capital financing. The company has total assets of approximately $60 million. Its portfolio of investments is primarily in common stock/loan combinations.

Operational Approach
Canadian Corporate Management prefers to invest in situations arising in high-technology, manufacturing (durable and non-durable, consumer and industrial) and recreation and leisure industries. Canadian Corporate Management will consider opportunities arising anywhere in Canada, but is reluctant to invest in the following industries: chemicals, construction, forest products, natural resources and transportation. Canadian Corporate Management is flexible on the range of investments that it will make. Depending on the stage of corporate development and the risk attached to the specific situation, the investment would normally range from $50,000 to $1 million. Proposals greater or smaller than this range will be considered. Canadian Corporate Management may or may not take control initially but, regardless of the extent of the company's position, board of director control is required. The company has invested in a buy-out in the past but, as it prefers to have the present owners maintain some equity position, buy-outs constitute one stage of the corporate life cycle which does not generally interest the company.

Venture Analysis
Canadian Corporate Management feels that there are

certain primary requirements to be met by the applicant. Technical research, if applicable, must have been completed and the existence of adequate financial and market planning must be demonstrable. As Canadian Corporate Management is capable of supplying on-going management to companies in which it invests, the lack of a complete management team is not necessarily a hindrance. The company monitors its investments by means of monthly meetings, monthly financial statements and management reports and by comparison of actual results achieved against annual budgets.

5.3.14 Charterhouse Canada Limited
Suite 1310, Montreal Trust Building
11 King Street West
Toronto, Ontario M5H 1A3
Tel: (416) 362-7791

Direct inquiry to:
M. P. Pick
G. L. Leonard

General Information

Charterhouse Canada Limited is a subsidiary of British-based Charterhouse Group Limited. Charterhouse at present has investments in more than 30 companies including: Colorvision Rentals Limited, Great West Steel Industries Limited, International Systcoms Ltd., Sunningdale Oils Ltd. and Energy Sciences Inc.

Operational Approach

Charterhouse will invest in situations arising anywhere in Canada. Generally, a proposal from any established commercial or manufacturing enterprise would be considered. However, the company is reluctant to invest in construction and extractive industries. Investments in the $250,000 to $750,000 range are preferred. Charterhouse anticipates turning over an investment from five to seven years after acquisition. The company invests in all stages of corporate growth. It will not finance a situation where technical research has not been completed. The company requires one seat on the board of directors. Because Charterhouse does not provide on-going management, the applicant should have a complete management team. It is not Charterhouse policy to seek voting control. Charterhouse will acquire a minority interest in the common share capital. A part of each investment is likely to be in the form of preferred shares, notes or debentures redeemable on an agreed plan over a number of years.

Venture Analysis
Charterhouse Canada Limited, aware that the entrepreneur would not be aproaching it if his financial arrangements were settled, does not expect the applicant to have completed his financial planning prior to his initial meeting with the company. Skills in the area of marketing and production planning should be evident from an initial review of the applicant's situation. Following approval of a proposal by the Charterhouse board, it is usual practice to institute a legal and audit check of those matters which have formed the basis of the board's decision.

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5 Citicorp Venture Capital
Canada Ltd.
Suite 316
120 Adelaide Street West
Toronto, Ontario M5H 1T1
Tel: (416) 864-1127

Direct inquiry to:
W. John Rae
Allan E. Jenner

General Information
Citicorp Venture Capital Canada Ltd. is a subsidiary of Citicorp Venture Capital Ltd. (a subsidiary of First National City Corporation). The company has assets of $2.5 million and has used common stock as its principal investment instrument since its formation one-and-a-half years ago.

Operational Approach
With the exception of chemicals, financial services and food and beverage industries, Citicorp will look at any opportunity arising anywhere in Canada. There is no hard and fast rule on board of director representation, as this would relate to the size and risk of the investment involved, but normally it is required. Citicorp prefers the $100,000 to $500,000 range for its investments and looks most favourably on the development and expansion stages of corporate growth. Citicorp does not take a controlling interest. It is anticipated that an investment will not be held for more than eight years.

Venture Analysis
Citicorp expects the applicant to have a complete management team with demonstrable skills in the areas of financial and market planning as the company is not in a

position to supply on-going management to the applicant to offset any deficiencies.

5.3.16 Dannoc Group Limited
Suite 919
67 Yonge Street
Toronto, Ontario M5E 1J8
Tel: (416) 864-9764

Direct inquiry to:
Ralph T. Howard
Brian J. B. Galvin
Detlef Martell

General Information

Dannoc Group Limited has been active in venture capital financing since May, 1971. While a full-time staff of three runs the operations, Dannoc has a central core and advisory group of 10 professional managers to draw from, five of whom are shareholders. The object of the Dannoc Group is to participate in the equity capital of the selected company and become actively engaged in the management in order to build the enterprise to a position where it becomes a public company. Dannoc has invested in three companies. It uses common stock as its principal investment instrument.

Operational Approach

Dannoc Group Limited is not interested in start-up situations but will participate in all other stages of development including turn-arounds and buy-outs. The average range of investment is from $50,000 to $250,000. Preference is shown for manufacturing in general. The company is reluctant to invest in construction and development, forest products, natural resources, retailing and wholesaling. There are no limitations as to the location of the enterprises in which it will invest. Although never having participated in a syndicate, Dannoc would be willing to syndicate financing in the future. Dannoc seeks a capital growth of six times investment in four to six years. Dannoc does not necessarily take a controlling interest. If control is taken, it may be earned back by the entrepreneur.

Venture Analysis

At the earliest stage of investment the prospective company is expected to have developed complete technical research. Financial, marketing and production planning as well as a complete management team can be supplied by Dannoc. A fee is charged for managerial and consulting services.

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7 Gdn. Ventures Limited
48 Yonge Street
Toronto, Ontario M5E 1G6
Tel: (416) 364-8341

Direct inquiry to:
Alan Grieve
Peter Roode

General Information
Gdn. Ventures Limited is a wholly-owned subsidiary of Gdn. Management Limited (the Guardian Growth Fund Limited management company). The company has been operating in the venture capital field for roughly three years. Its investments include: Digital Telephone Systems Inc., a California-based manufacturer of sophisticated multiplex equipment; Medical Data Sciences, a medical service company operating clinical laboratories and health screening centres; and Keydata Corporation, a data processing firm located in Massachusetts.

Operational Approach
The Gdn. Ventures' philosophy is to invest only in new or developing companies that have open-ended growth potential. A buy-out proposition would also be of interest. Gdn. Ventures prefers investments in the $100,000 to $500,000 range in high-technology, communications and consumer services. Although Gdn. Ventures does not necessarily control the board of directors, it does seek to have control placed in the hands of persons outside management of the company. Gdn. Ventures feels that this step makes management more willing to discuss problems with the investor group, knowing that they have the ability to change the course of events affecting the company. Normally Gdn. Ventures is reluctant to invest in the Maritimes and Quebec.

Venture Analysis
Gdn. Ventures expects market planning to be completed prior to application. As the company concentrates on start-up situations, it is not unusual to find gaps in entrepreneurs' managerial skills. Gdn. Ventures is not, however, capable of supplying on-going management so the applicant must be able to acquire the required skills upon start-up. Having shifted control of the board of directors to outsiders, Gdn. Ventures will require the senior salaries, capital expenditures and budgets be approved by this board.

5.3.18 Helix Investments Limited
Suite 2400
401 Bay Street
Toronto, Ontario M5H 2Y4
Tel: (416) 368-2371

Direct inquiry to:
K. Soehner
M. J. Needham
D. C. Webster

General Information

Helix Investments Limited is a privately-held Canadian venture capital company with invested funds of approximately $10 million placed in primarily common stock of 33 companies. D. C. Webster, President, is the company's largest shareholder and takes an active role in the assessment of applications.

Operational Approach

Helix Investments Limited prefers to invest in the area of medical products, electronic data processing (and related hardware) and service industries in general. The company is reluctant to invest in the following industries: chemicals, construction and development, financial services, forest products, natural resources and retailing. Helix will consider opportunities originating anywhere in Canada. Although investments will usually fall into the $150,000 to $250,000 range, the company has made investments ranging from $5,000 to $1 million in its four years of venture capital financing. Helix usually takes a controlling or dominant position either mutually or by subsequent conversion with a view to holding the investment for roughly seven years. Emphasis is placed on opportunities arising in the earlier stages of corporate growth, so the company would generally not consider turn-around and buy-out situations.

Venture Analysis

Helix Investments Limited expects the applicant to have completed some marketing and production planning and technical research prior to approaching the company. Helix will help fill gaps in the management team through its access to a variety of management personnel from previous associations. Analysis of the key man forms the basis of the Helix decision on an applicant. In monitoring its investment, the company prefers to maintain regular communication with this individual and the other members of the entrepreneur's management group.

19 Holdex Group Limited
Suite 300
170 University Avenue
Toronto, Ontario M5H 3B3
Tel: (416) 364-9415

Direct inquiry to:
D. G. Badger
R. W. Macaulay

General Information
Holdex Group Limited is a privately-held firm operating in Toronto. During the company's three years in venture capital financing, it has concentrated on a combination of debentures plus common stock when investing.

Operational Approach
Holdex Group Limited will look at situations arising at any stage of the corporate life cycle. Preference is given to investments in the $250,000 to $750,000 range although debt funds, if well secured, are available in any amount. Holdex is willing to initiate and participate in syndications. The company will consider opportunities arising in most industries and is particularly interested in limited partnership and debt with equity option investments. Holdex does not ordinarily take a controlling interest but it does require board of director representation.

Venture Analysis
Holdex Group Limited expects that the entrepreneur has at least completed his market research and financial planning before submitting an application. Holdex will assist with the management of the company on a consulting basis. A fee is ordinarily charged for such services. In addition to board of director representation and the usual review of financial reports, Holdex prefers to attend management meetings on a periodic basis in order to monitor its position in the portfolio company.

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20 I.M.M. Ventures Limited
34 Adelaide Street West
Toronto, Ontario M5H 1L8
Tel: (416) 362-2725

Direct inquiry to:
F. C. Knight

General Information
I.M.M. Ventures Limited is a wholly-owned subsidiary of International Mogul Mines Ltd. (Toronto Stock Exchange). It has been active in venture capital for two years, even though the parent company has been engaged in venture

capital for about 10 years. It has a capital base of approximately $1,750,000. For its venture capital activity the company has a staff of one and draws upon resources of the parent company.

Operational Approach
I.M.M. is currently involved in four financings. The company concentrates on advances and loans rather than straight equity investments. Although no new ventures were undertaken in the January to June, 1972, period, approximately $175,000 were invested at this time as additional advances to prior acquisitions for research and development and expansion. The company prefers its investments to be in the range of $150,000 to $250,000 although actual range has been from $12,000 to $800,000. The company is willing to participate with other venture groups in its investments and prefers to invest in the area of natural resources. A reluctance to invest is shown in the industries of building materials, educational products and services, forest products, high-technology and retailing. There is no geographical preference for enterprises. The company prefers to invest in the start-up and development stages. Rarely will the turn-around stage be considered. I.M.M. has never invested in a high-technology start-up. The company ordinarily takes a controlling interest. The restrictions placed on portfolio companies vary greatly but I.M.M. usually maintains control of the board of directors.

Venture Analysis
Submissions are decided upon within two weeks. The company has found that well-prepared submissions are rare and, in one instance, took three months to accept a submission. The ultimate approval rests with the board of directors. I.M.M. expects technical research and management to be already developed by the portfolio company. I.M.M. will supply financial assistance and administration and consulting services where necessary. The position of middlemen must be determined prior to commencing investigation and a percentage of the investment will be considered only if arranged during the initial investigating period. There is no set time limit for resale of an investment.

21 Investors Finance Corporation Ltd.
Suite 301
372 Bay Street
Toronto, Ontario M5H 2X2
Tel: (416) 864-9053

Direct inquiry to:
F. Robert Hewett

General Information
Investors Finance Corporation Ltd. is a private corporation associated with publicly-held Sterling Trusts Corporation. The company entered the venture capital field recently and, at the present time, has only one investment.

Operational Approach
Investors Finance Corporation Ltd. has a strong preference for financial, natural resource and manufacturing industries in Ontario but will also consider situations which originate in Quebec. The company will consider investment in expansion, turn-around and buy-out situations. There are certain industries in which the company will not consider an investment. These include: chemicals, communications, food and beverage, forest products, retailing and transportation. The company prefers investment opportunities in the $100,000 range which will create a control position. Ordinarily, the company offers a buy-back based on performance. Representation on the board of directors is required and the use of monetary resources is restricted until performance is proven.

Venture Analysis
Investors Finance Corporation Ltd. requires the applicant to display satisfactory market and production planning skills. In addition, the applicant must already have a complete management team. Subsequent to the investment, the entrepreneur must provide comparisons of actual monthly cash flow with budgeted figures to assist the company in monitoring the situation.

5.3.22 McConnell & Company Limited
Suite 1910
8 King Street East
Toronto, Ontario M5C 1B5
Tel: (416) 364-4461

Direct inquiry to:
F. E. McConnell
George Slightham

General Information

McConnell & Company Limited is a Toronto-based broker and investment dealer. A department of the firm directs the venture capital activities. McConnell & Company has been involved in the field for the past 10 years. Two recent financings are: Champlain Forest Products Limited, a manufacturer of softwood plywood; and Henninger Brewery (Ontario) Ltd. This latter investment is McConnell & Company's largest venture capital financing to date, representing a total of $3.2 million by way of a combination of instruments. McConnell & Company feels its most successful original financing was made in the field of financial services—The Metropolitan Trust Company.

Operational Approach

McConnell & Company Limited will consider situations at all stages of corporate growth originating anywhere in Canada. Preference will be given to investments in the $500,000 to $5 million range. The company would be reluctant to arrange investment in consumer services, general high-technology, retailing and wholesaling situations. McConnell & Company has used the full spectrum of financing vehicles. Representative of this would be the Henninger Brewery deal which included bonds with warrants, convertible preferred, preferred and common stock. The company is interested in participating in syndications with other venture capitalists. McConnell & Company has no set rules insofar as liquidating its client position in a portfolio company.

Venture Analysis

McConnell & Company Limited will participate in the development of a company's planning in the areas of finance, marketing and production. In addition, the company has, on occasion, taken responsibility for finding management. Investments are monitored by means of board of director membership and by direct contact with management, as required.

.23 MerBan Capital Corporation Limited
20 Victoria Street
Toronto, Ontario M5C 1Y1
Tel: (416) 362-2695

Direct inquiry to:
A. Sarlos
G. Montague
M. Carter

General Information
MerBan Capital Corporation Limited was formed in April, 1972, by Acres Limited, Traders Group Limited, Guaranty Trust Company and Canadian General Securities Limited. Since incorporation, the company has invested approximately $11 million in ventures such as: Cable Castings Limited, a cable television operation; Biltmore Hats Limited; Alpa Industries Limited, a lumber wholesaler; Electronic Associates Limited, a manufacturer of process controls for the pulp and paper industry; and Kaps Transport Limited, a transportation and service company for northern oil exploration.

Operational Approach
MerBan Capital Corporation Limited will consider any opportunity, preferably in the $500,000 to $1 million range, regardless of geographical origin. Proposals originating outside of Ontario must, however, offer a somewhat higher potential return to offset the higher costs of servicing and monitoring the investment. MerBan requires board of director representation and frequently seeks control of the board (or at least the removal of control of the board from the entrepreneur). Otherwise, MerBan places no restrictions whatsoever on the operation of the business. MerBan would consider investing in a development situation but will ordinarily only take a position in expansions, turnarounds and buy-outs.

Venture Analysis
MerBan Capital Corporation Limited is aware that the applicant might need some assistance with his financial planning. Marketing, production planning and any applicable technical research must, however, be complete prior to approaching the company. MerBan places a great deal of emphasis on the strength of the entrepreneur's management team. Therefore, MerBan will attempt to tie down good management for the duration of the investment in the operation (generally from three to five years).

5.3.24 Opekar Investments Limited
P.O. Box 90
Simpson Tower
401 Bay Street
Toronto, Ontario M5H 2Y4

Direct inquiry to:
R. J. Opekar

General Information

Privately-held Opekar Investments Limited has been involved in venture capital financing for the past five years. Most investments to date have been in high-technology start-ups by way of preferred stock with a common stock bonus.

Operational Approach

Opekar Investments Limited will consider situations arising anywhere in Canada. Although it has participated mainly in start-ups in the past, opportunities arising at any stage of corporate growth would be considered. The company has no particular prejudice as to what industries it will invest in as long as there is an opportunity to turn the investment over at a substantial return in approximately three years. Situations requiring $5,000 to $50,000 are preferred although the company did put up considerably more in one particular investment. Should greater amounts of financing be required, Opekar Investments Limited would be interested in participating in syndications with other venture capitalists.

Venture Analysis

Opekar Investments Limited places a great deal of emphasis on direct supervision of the portfolio companies. It is preferred that an applicant have the capability of carrying on some of the necessary management functions. Opekar Investments could, if required, arrange to supply on-going management. Board of director representation is always required to assist in the monitoring process.

.25 Security Analysis Limited
Suite 907
100 Adelaide Street West
Toronto, Ontario M5H 1S3
Tel: (416) 367-0101

Direct inquiry to:
D. R. Annett
J. P. Catty
P. Leigh-Bell

General Information
Security Analysis Limited is a privately-held management consulting group the prime function of which is to act in an advisory capacity to the management of client companies on a fee basis, supplementing services rendered by lawyers and auditors. It specializes in corporate financial planning; advising clients on the financing of their venture or expansion; structuring an equitable deal; introducing investors, underwriters, merger or acquisition partners; and conducting negotiations, leaving management free for the day-to-day administration of the business. The group offers extensive knowledge of sources of capital and its investment parameters in Canada and abroad as well as experience in arranging terms which will give long-term benefits to those involved. Affiliated companies are: Annett Partners Limited (private placements for non-venture situations), Ascendo Investments Limited (venture situations), Peter Leigh-Bell & Associates Limited (management consulting) and Omniconsult Inc. (government consulting).

Operational Approach
Devising a plan for fund raising is part of the overall strategy. It could involve finding an industrial investor and/or private venture capitalist or, if more appropriate, a merger partner. Examples: A recent deal was a $7 million private placement through Annett Partners Ltd. for a client who originally obtained his first venture capital 15 years ago under its auspices. A $15,000 (13 per cent equity) investment by Ascendo Investments Ltd. as part of a syndicate, two years ago now has a marketable value of $130,000. Deals are always syndicated, must include common shares and, depending on circumstances, board representation for the investors. Preference is for start-up situations (except resource industries) but more mature growth companies are also assisted. There are no geographical preferences. Assistance can be arranged for expansion overseas.

Venture Analysis

The service provided concentrates on long and short-range corporate planning based on an evaluation of operating history, market environment and future potential. Investment or merger proposals prepared by Security Analysis Limited are considered independent professional opinions and can only be made available where the situation merits them. Investments tend to be people and idea-oriented rather than towards assets. Additions to management or some expenditure controls may be required.

5.3.26 TD Capital Group
P.O. Box 1
Toronto Dominion Centre
Toronto, Ontario M5K 1A2
Tel: (416) 866-5451

Direct inquiry and written summary to:
Any Toronto Dominion Bank Branch or TD Capital Group.

General Information

TD Capital Group was formed by Toronto Dominion Bank to provide financing, directly or in partnership with other venture capital groups, to small businesses whose capital needs cannot be met by the bank's normal lending practices.

Operational Approach

The majority of investment commitments fall in the $50,000 to $500,000 range but larger amounts will be considered. TDCG, through its extensive contracts, is well placed to put together a consortium or group of investors for larger placements. TDCG investment emphasis is on new or small enterprises, possessing unusually promising growth prospects, that do not have the resources or security required for normal bank loans nor the earnings record to seek public financing. While prime consideration will be centered on Canadian companies, investment in other countries will be considered. Investments by TDCG can be in a variety of forms tailored to the specific requirements of the company. Generally, they will be interest-bearing and have an equity flavour, e.g. convertible debt or preferred stock or notes with warrants to purchase common stock, rather than straight debt. TDCG will give preference to investments located in Canada or that can create external demand for Canadian goods and services. It will not limit its investment to any one type of

industry or to companies at any particular stage of development.

Venture Analysis
TDCG will require that management is highly competent and has a proven track record in its proposed operation or in a related industry. In addition, TDCG will seek investments where companies exhibit distinctive competence either through proprietary, patent or franchise protection or unique management input.

3.27 Triarch Corporation Limited
Suite 1120
120 Adelaide Street West
Toronto, Ontario M5H 1T1
Tel: (416) 364-2271

Direct inquiry to:
D. C. Meek
C. D. Watson
A. E. Aspinall
J. A. McArthur

General Information
Triarch Corporation Limited is a wholly-owned subsidiary of Jonlab Investments Limited (a Canadian-owned public company). The company has been engaged in venture capital financing, as a principal, in a limited way to date although it is considering expanding this activity. The company has syndicated deals in the past and would consider initiating or participating in a syndication in the future. Triarch usually invests in common stock but other types of securities would be considered.

Operational Approach
Although Triarch Corporation Limited has no strong preferences for areas of investment, with the possible exception of financial services, the company is reluctant to participate in high-technology or start-up situations. Triarch is not receptive to turn-around and buy-out proposals. The company does not ordinarily take a controlling interest and it usually endeavours to work out a formula by which its minority position can be liquidated within three to five years after the initial investment. Triarch looks primarily at investment opportunities in excess of $250,000. In order to monitor its portfolio, Triarch requires board of director representation, submission of financial statements and direct contact with the operation and its management on a regular basis. In order to safeguard its investment, certain restrictions on minimum

working capital levels, cash disbursements (including salaries) and dividend policy may be written into the agreement.

Venture Analysis
Triarch Corporation Limited does not supply on-going management to companies in which it invests. Therefore, although it will offer assistance to management on a consulting basis for a fee, it is suggested that the entrepreneur have a complete and effective management team or at least have made provision for the early rectification of current weaknesses.

5.3.28 Trucena Investments Limited
Suite 1902, Royal Trust Tower
P.O. Box 288
Toronto Dominion Centre
Toronto, Ontario M5K 1K2
Tel: (416) 868-0645

Direct inquiry to:
J. E. Sands

General Information
Trucena Investments Limited is a privately-held Canadian investment company associated with the Dutch Brenninkmeyer family group of companies. The company was established in 1969 to engage in direct investments. Eight people are involved in the operation, representing banking, accounting, legal and tax expertise. An affiliated Canadian company is involved in real estate.

Operational Approach
The venture capital division of Trucena Investments Limited will consider all types of businesses for investment but prefers service industries in general. No restrictions are placed on the location of the enterprise. A controlling interest is not sought but the company does expect to maintain close contact by means of board representation, periodic reports and personal visits. Trucena Investments Limited is a long-term investor and, as such, dictates no time range for sale or minimum annual rate of return. The company's investment instrument has generally been common stock. The only restrictions placed on the companies in which it invests are normal protections for minority investors as conditioned in shareholders' agreements. Trucena has participated in ventures with venture capital groups. It has previously initiated syndi-

cations. The size of its investments has ranged from $150,000 to $1,750,000 but it now invests from $500,000 upwards. Although the company has done so on occasion, it will not usually participate in an investment at the start-up or early stages of development. Trucena concentrates on expansions, turn-arounds and partial buy-outs.

Venture Analysis

When a submission has been received, a committee usually decides within one week upon rejection or acceptance in principle. Management is not supplied. Any services performed by middlemen, brokers, etc., should be remunerated by the seeker of the capital.

.29 United Dominions Corporation (Canada) Limited
185 Bloor Street East
Toronto, Ontario M4W 1C8
Tel: (416) 924-1484

Direct inquiry to:
H. D. Hope
R. H. W. Fenwick

General Information

United Dominions Corporation (Canada) Limited is owned by United Dominions Trust Limited of Britain (51 per cent) and the Canadian Imperial Bank of Commerce (49 per cent). The company has been engaged primarily in the installment finance business. It is anticipated that a division of the company will begin to actively participate in venture capital financing in the near future.

Operational Approach

United Dominions will be most interested in investments falling within the $50,000 to $500,000 range. Preference will be given to recreation and leisure industries, financial services and manufacturing in general. The company will have a strong reluctance to invest in high-technology situations. United Dominions is interested in investing at all stages of corporate development with the exception of those situations requiring the financing of prototype development or market definition. It is anticipated that most investments will be made by way of debentures with some sweetener attached such as common stock, warrants or a conversion feature. There will be no geographic restrictions placed on the origin of the situations in which the company will invest.

Venture Analysis

United Dominions expects that the entrepreneur will have a complete management team and that his marketing and production plans will be fully developed prior to the submission of a proposal. The company is not in a position to supply on-going management although it will provide financial planning services for a fee. Investments will be monitored by means of board of director representation. monthly financial statements, budgetary controls. Board meetings will be held at least on a monthly basis. The financing agreement will generally include controls over capital expenditures, dividends, redemption of shares, management salaries and working capital levels.

5.3.30 Varitech Investors Limited
48 Yonge Street
Toronto, Ontario M5E 1G6
Tel: (416) 363-2443

Direct inquiry to:
J. W. Hardie
J. I. McKinney

General Information

Varitech Investors Limited is a privately-held company providing venture capital and management services to entrepreneurs. The major shareholders are Toronto Dominion Bank, Anglo American Corporation, Royal Trust, Allpak Products and Burns Bros. & Denton (each holding more than 5 per cent of the equity). All major financing in which Varitech participates are syndicated with Varitech acting as syndicate manager. Previous syndications have financed deals ranging from $150,000 to $700,000. As an example, Varitech participated to the extent of $33,000 in a recent $310,000 financing of Edson Holdings Ltd. (a packaging machinery manufacturer).

Operational Approach

Varitech prefers investments in the $25,000 to $100,000 range. In the case of syndication total investments could run from $250,000 to $1 million. Varitech will consider investing in all stages of the corporate life cycle, although the company has not invested in a turn-around situation to date. Varitech generally uses three types of investment instruments: common stock, convertible preferred stock and preferred with common as a bonus. The company has no preferences as to industry or location of an investment opportunity. Depending on the situation, Varitech may

require representation on the board of directors. However, the company does not seek control of the board.

Venture Analysis

Varitech Investors Limited generally takes a negative attitude towards broker participation in a deal. The company requires that an applicant have a reasonable grasp of the market potential for the goods or services to be offered and present a detailed business plan which outlines how the market will be exploited. Any underlying technical research on the product should be completed at least to the point at which a prototype has been produced. Varitech will monitor and safeguard its investment by applying some restrictions on cash disbursements (particularly in the area of major capital expenditures) by reviewing financial statements and discussing the operations on a regular basis with key management.

3.31 Vencap Investments Limited
P.O. Box 352, Royal Trust Tower
Toronto Dominion Centre
Toronto, Ontario M5K 1K7
Tel: (416) 367-0602

Direct inquiry to:
A. D. Cossar

General Information

Vencap Investments Limited is a publicly-held corporation (listed-Toronto) which has been engaged in the field of venture capital financing for the past five years. It has invested in such companies as: Quinn Laboratories, a processor and printer of professional motion picture films; the Saints Investments Limited, a bumper reconditioning and electro-plating business; a division of Bumper Service Inc., a manufacturer of new bumpers for pickup trucks; and See Hear Now! Limited, an educational film strip business.

Operational Approach

The objective of Vencap Investments Limited is complete ownership or, at least, the acquisition of majority control of medium sized industrial companies. Therefore, its principal investment instrument is common stock. Ordinarily control of the board of directors is required. The company has no geographical restrictions on investment opportunities which it will consider. To date, the largest amount invested in any one deal is $1 million and the

company feels this represents its upper limit on the range of investments it will consider. Vencap will invest in companies in the development or expansion stages of the corporate life cycle and, in addition, will consider buy-out situations.

Venture Analysis
There are a number of factors that Vencap feels are prerequisites to a full investigation of a potential acquisition. The company must have a profitable history; complete ownership (or at least a majority shareholding) must be available; management must be able to display competence in financial, marketing and production planning; and management must be willing to remain with the company for a specified time after acquisition. In addition, the industry in which it operates must have growth possibilities although the company need not have shown more than an ordinary growth record.

5.3.32 Venturetek
International Limited
Suite 1105
21 King Street East
Toronto, Ontario M5C 1A2
Tel: (416) 363-6411

Direct inquiry to:
J. N. Kendall
D. E. Loeb
B. M. Westwood
M. V. Holt

General Information
Venturetek International Limited is owned by about 50 shareholders including the Canada Development Corporation, Excelsior Life Insurance Company, National Life Assurance Company of Canada, Manufacturers Life Insurance Company and Canada Permanent Trust Company. It has been engaged in venture capital financing for three years and operates with a staff of seven. Total assets on its most recent financial statements were in excess of $10 million.

Operational Approach
Venturetek International Limited's usual form of investment includes common stock and debentures. Venturetek is interested in participation with other financial groups in syndicated deals. Preference is shown for high-technology situations where a great deal of marketing input is required. There is no restriction as to the location of the entrepreneur. The company is interested in investing in the

initial stages of development up to the expansion stage of a well-established company. It has invested in a turn-around situation, but will be highly selective in this category in future. Venturetek seeks to take a controlling interest in situations in which it invests. The company is looking for situations having the potential to yield an outstanding rate of return on shareholder's equity and preferably seeks to liquidate its position within five to seven years after investment. The minimum investment which the company now wishes to make is $100,000 although its investments have ranged from $16,000 to $1.5 million. It is not usually receptive to participation by middlemen, brokers, etc.

Venture Analysis
Venturetek International Limited will restrict itself to a small number of companies and requires both uniqueness in product and the existence of major (i.e. international) market potential. The company will monitor its investments by control of the entrepreneur's board of directors, representation on the executive committee and by active participation in management. In addition, the company likes to receive all the normal reports in connection with the operations of the enterprise.

.33 Wisener and Partners
Company Limited
220 Bay Street
Toronto, Ontario M5J 1P9
Tel: (416) 366-6996

Direct inquiry to:
R. A. Wisener
N. G. VanNest

General Information
Wisener and Partners Company Limited has been operating in the field of venture capital financing since 1968. In addition to investing directly in ventures, the company holds a substantial position in Venturetek International Ltd. with R. A. Wisener acting as its board chairman. The company prefers to invest by way of common stock and convertible debentures.

Operational Approach
Wisener and Partners Company Limited will consider opportunities arising in virtually any industry but prefers high-technology and natural resource situations. Generally, the company does not place any geographical restric-

tions on the origins of an investment situation. Wisener and Partners prefers investments in the $100,000 to $250,000 range. Wisener and Partners will invest in any stage of the corporate life cycle but its greatest interest is in turnarounds and start-ups. The company does require board of director representation but is satisfied if this representation is through a nominee. In no situation does the company seek control of the board.

Venture Analysis

Wisener and Partners Company Limited would expect the entrepreneur to have defined his market and completed any production planning prior to submitting his application. In addition, any technical research required for the development of a prototype should be completed. Wisener and Partners requires the submission of budgets and financial statements on a regular basis plus management reports as frequently as the progress of the operation renders necessary. On-going management is available from associated companies. A fee is charged for these services.

QUEBEC

5.3.34 Canadian Enterprise Development Corporation Limited
967 Sun Life Building
Montreal, Quebec
Tel: (514) 862-2764

Direct inquiry to:
G. D. Sutton
D. H. Mather
B. Corbet

General Information

Canadian Enterprise Development Corporation Limited (CED) is a Canadian-controlled venture capital company which was formed in 1962 by a group of Canadian financial institutions. CED has positions in a variety of companies including Logistec Corporation; Central Dynamics Ltd., a manufacturer of advanced electronic equipment; MICC Investments Limited; Jasper Petroleums Limited; Digitech Corporation; and Westmills Carpets Limited. CED has strong financial backing. At the present time, assets of $14 million are invested primarily in notes and common stock of 26 companies.

Operational Approach

The purpose of CED is to provide risk capital and other assistance to people who wish to build a strong Canadian

company. Therefore, the company will consider any opportunity originating anywhere in Canada. The company prefers opportunities in the $100,000 to $300,000 range although it has gone as high as $1 million on a single deal. CED will be of interest to those entrepreneurs requiring financing of a long-term nature as the company typically retains its investment for six to 10 years. CED will participate with other investors in a deal but does require direct representation on the board of directors. CED does not ordinarily invest in buy-outs and it requires that market planning be completed prior to involvement.

Venture Analysis
In judging an investment opportunity, CED places considerable emphasis on evaluating the people involved.

.35 Canri Management Limited
Suite 90
3 Place Ville Marie
Montreal, Quebec
Tel: (514) 875-5890

Direct inquiry to:
David C. Salter

General Information
Canri Management Limited is a small, privately-held venture capital company. The company is also active in financial consulting, assisting small Canadian businesses prepare presentations and negotiate charter bank lines of credit, long-term borrowing and government grants.

Operational Approach
Canri Management Limited has a strong preference for investment in the areas of food and beverage, financial services and pollution control and is hesitant to consider investment in high-technology, natural resource and retailing situations. Due primarily to its size and its wish to monitor its investments by direct contact with management, the company prefers to invest in its own geographic region (Ontario, Quebec and the Maritimes). Canri has used, principally, convertibles and debt as its instrument of investment. A ceiling of $100,000 is placed on any one investment but the company is willing to consider investing at any stage of the enterprise's development.

Venture Analysis
As Canri is looking primarily at small businesses, it is

aware of the general shortcomings of such businesses in the area of financial administration. Therefore, Canri takes an active role in the companies in which it has invested, often performing the normal treasurer's function.

5.3.36 Consortium Investment Corporation
Suite 208
6600 Cote des Neiges Road
Montreal, Quebec
Tel: (514) 735-5581

Direct inquiry to:
M. L. Lippman

General Information

Consortium Investment Corporation is a limited company with the equity held by a number of shareholders. It has been in operation since 1967 and functions with a staff of two. To date, there has been investment in eight companies, with six proposals considered from January to June, 1972. Most of the investing has been by way of debentures plus common stock.

Operational Approach

There are no set restrictions placed on selected enterprises. Investment has ranged from \$20,000 to \$300,000 and preference lies in the \$25,000 to \$500,000 range. Consideration will be given to any enterprise from the start-up stage onward including turn-around and buy-out situations. Consortium is also prepared to participate in a syndication. A negative bias is apparent in the fields of building materials, construction and development, and natural resources. Preference is shown in manufacturing, electronics (high-technology industries) and food and beverage. No provincial restrictions are placed on any investment. Consortium prefers, initially, to take a controlling interest which may be earned back by the founders of the company. An annual rate of return of 15 per cent is usually sought with an approximate life of five years on an investment. Control of the board of directors is preferred.

Venture Analysis

A company is expected to have developed the marketing plan, complete technical research and production planning. Consortium is capable of supplying on-going management in most areas. A close relationship is

maintained by means of monthly financial statements, membership on executive committees and through seats on the board. Depending on the size of the company, an application is researched by the director and referred to the executive committee for opinion, consideration or refusal. A period of one month is normal for decision on a submission. Investments of more than $100,000 must first be approved by the board of Consortium.

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37 Genstar Limited
Suite 4105
1 Place Ville Marie
Montreal, Quebec
Tel: (514) 866-2601

Direct inquiry to:
L. E. Whitworth

General Information
Genstar Limited is a publicly-held corporation listed on the New York, Montreal, Toronto and Vancouver stock exchanges. The company is engaged in a variety of operations either directly or through subsidiaries including venture capital financing in the western United States.

Operational Approach
The venture capital subsidiary of Genstar has more than 30 investments in its portfolio. Emphasis has been placed on new high-technology industries. The following investments in California-based companies exemplify this approach: Lexitron Corporation, a producer of advanced typing and text revision systems; International Plasma Corporation, a manufacturer of low temperature plasma equipment for industry; and Advanced Memory Systems Inc., a manufacturer of semi-conductor memory products and systems. Genstar expects that investments will be held for at least five years.

Venture Analysis
The company expects that the management team of the applicant will be both experienced and creative. There must be a large and growing market for the applicant's product and the product must show some unique features which will enable it to capture a share of this growing market.

5.3.38 Gerbro Corporation
Suite 1700
1245 Sherbrooke Street West
Montreal, Quebec
Tel: (514) 769-1274

Direct inquiry to:
F. R. Lindsay

General Information
Gerbro Corporation is a privately-held venture capital concern which has, for the past 15 years, concentrated on investment in the common stock of companies in the start-up and development stages of corporate life.

Operational Approach
Gerbro Corporation prefers investments in the $100,000 to $200,000 range although it has gone as high as $2.3 million on one deal. The company does not show any strong preferences as to which industries it invests in, although it is reluctant to consider opportunities in chemicals, food and beverage and forest products. The company does not ordinarily take a controlling interest or an interest convertible into control and prefers to terminate its position in the enterprise within five years of the initial investment. At the present time, Gerbro's portfolio consists of minority positions in 10 companies which are monitored by board of director representation, periodic reports and direct communication with the operation's management.

Venture Analysis
Gerbro Corporation expects that any company in which it invests will have developed a complement of management skills including financial, marketing and production planning. In addition, the entrepreneur should be able to demonstrate that any technical research required by the project has been completed. The company is generally reluctant to deal with the applicant through brokers or other middlemen.

39 Gestion & Placements E.J.C. Inc.
18 Cairns
P.O. Box 383
Granby, Quebec
Tel: (514) 372-3834

Direct inquiry to:
E. J. Crevier
Guy Phoenix

General Information

For the past three years, Gestion & Placements E.J.C. Inc. has been supplying secured debt financing. The company is keenly interested in opportunities requiring equity participation and, to date (in 1972), has made two such investments involving approximately $180,000. In addition, the company is willing to both initiate and participate in syndications.

Operational Approach

Gestion & Placements E.J.C. Inc. will consider situations arising at any stage of corporate growth. Preference will be given to businesses in the fields of financial services, commercial real estate development and high-technology. The company is reluctant to invest in either textile or mining industries. Although no formal geographical restrictions exist, situations arising in either British Columbia or the Maritimes would have to be relatively more enticing before an investment in those areas would be made.

Venture Analysis

Gestion & Placements E.J.C. Inc. is flexible insofar as what managerial and technical skills the entrepreneur must have prior to submitting a proposal. On-going management is not available so, if there are gaps in the entrepreneur's management team, outside professionals would be called in. Generally, investments are monitored by means of monthly inventory reports and trial balances plus quarterly financial statements.

5.3.40 International Capital Corporation, Ltd.
Suite 1434
800 Dorchester Boulevard West
Montreal, Quebec
Tel: (514) 866-4811

Direct inquiry to:
James H. McDougall

General Information

International Capital Corporation, Ltd. (ICC) was established in 1968 by the Royal Bank of Canada, IAC Limited and United Corporations Ltd. as an autonomous private financial corporation for the purpose of specializing in merchant banking. In addition, ICC, through a subsidiary, has engaged in financial consulting on a fee basis in such areas as corporate financial planning, merger and acquisitions and private placements.

Operational Approach

International Capital Corporation will consider almost all types of business for investment and places no geographical restrictions on the origins of a venture. Preference is given to investments in the $100,000 to $1 million range although the company will go higher if additional funds are required. Generally, ICC will invest in any stage of the corporate life cycle although the financing of the initial stage of idea development is only considered in exceptional cases. Usually a minority position is taken and this is reflected in representation on, but not control of, the board of directors. Investments are monitored by periodic financial reports and field visits by ICC staff.

Venture Analysis

Prior to meeting with a staff member of International Capital Corporation, it is preferable that the applicant make a written submission. ICC looks for investment flexibility and so prefers to invest in situations that could become public companies within a three to seven-year period. ICC feels that the most important factors for the acceptance of an opportunity are able and dedicated management and a sound business plan including a good understanding of the existing or projected market.

.41 Kauser, Lowenstein & Meade Ltd.
Suite 1050
2055 Peel Street
Montreal, Quebec
Tel: (514) 849-1651

Direct inquiry to:
Eric E. Baker
Harold A. Josephson

General Information

Kauser, Lowenstein & Meade Ltd. is a privately-held venture banking and merchant banking intermediary with access to substantial financing from clients of the firm. The company has been active in the area of private placements, recent examples being: Shared Medical Systems Inc.; Union Electric; Laurentian Concentrates Limited; and Cinefund Ltd. In addition, the company has taken an active role in initiating, structuring and negotiating the acquisition of the broadcasting division of Canadian Marconi by Multiple Access Limited and of cable TV assets owned by CBS and Rediffusion (England) Ltd. At the time this book was going to press, Kauser, Lowenstein & Meade Ltd. was in the process of forming a new venture capital company that would be capitalized at $10.0 million, with the Canada Development Corporation supplying 40 per cent of the funds and the balance coming from major Canadian financial institutions. Kauser, Lowenstein & Meade Ltd. will select investments on behalf of the new company and manage the company's portfolio.

Operational Approach

The company prefers opportunities that are not in the resource exploration business or real estate but they will give consideration to virtually any opportunity regardless of geographic location. Investments in the $250,000 to $1 million range are preferred but the company has initiated, negotiated and financed one transaction in excess of $27 million. The company is interested in opportunities arising at almost all stages of corporate development. The company works closely with the managements of the venture capital situations and usually involves members of its staff in the decision-making process. Board of directors representation is requested and, in some cases, required (depending on the extent of the investment). The primary instrument of investment is common stock. Control is not usually taken but Kauser, Lowenstein & Meade Ltd. will attempt to enter into an agreement with

the management group that provides for joint decisions on major factors affecting the company.

Venture Analysis
Kauser, Lowenstein & Meade Ltd. would prefer that the entrepreneur have a full complement of management skills. However, the company will provide assistance in the areas of financial administration, marketing and production planning on a consulting basis. Kauser, Lowenstein & Meade Ltd. prefers to monitor its investments by having regular meetings and maintaining a constant line of communication with management.

5.3.42 Maxwell Cummings & Sons
4115 Sherbrooke Street West
Montreal, Quebec
Tel: (514) 931-2424

Direct inquiry to:
M. S. Bercuvitz

General Information
Maxwell Cummings & Sons has, by itself and in partnership with other related groups and companies, been providing venture capital financing in Canada and the United States for the past two years. At the present time, this family-owned company has approximately $5 million invested in about 12 situations.

Operational Approach
Maxwell Cummings & Sons will consider virtually any investment opportunity and places no dollar or geographical limits on situations which will be considered. To date, the greatest position in a single deal has been in the $800,000 range. Pure venture capital situations should have a minimum potential yield of 400 per cent in three years. Generally, it is company policy not to take a control position. The preferred investment instrument is the convertible debenture. Maxwell Cummings & Sons prefers to participate in a company's second or third round of financing although turn-arounds and buy-outs will be considered. The company will not invest in start-ups.

Venture Analysis
Preference is given to companies which offer a unique product or service. The entrepreneur must have a complete and capable management team. His only need should be capital. Maxwell Cummings & Sons prefers situations

which show the potential of going public at a future date. Investments are monitored through direct contact with management on a regular basis and, but not necessarily, board of directors representation.

43 Nevron Industries Company Limited
1600 Dorchester Boulevard West
Montreal, Quebec
Tel: (514) 931-5711

Direct inquiry to:
W. C. Benger

General Information
Nevron Industries Company Limited was incorporated in August, 1972, with authorized share capital of $5 million and is wholly-owned by Nothern Electric Company Limited. The directors of Nevron Industries come from the board of Northern Electric and Bell-Northern Research. The management staff will principally be from Northern.

Operational Approach
It is intended that Nevron will concentrate on electrical, electronic and telecommunication ideas, primarily Canadian. However, if presented with a good opportunity from outside Canada, the company would consider it. Emphasis will be on small companies with good product ideas. It is hoped that Nevron's research and development back-up and financial assistance will prove valuable in bringing the product or products to market. Nevron is not interested in the inventor with only an idea and not even a working model. The company wants to invest in going businesses that need financial support and would benefit from technical and general management assistance.

Venture Analysis
Nevron will evaluate opportunities to participate with another company in bringing a new product to market. Interest may take the form of equity or loan convertible into equity in the company, depending on the circumstances.

5.3.44 New Venture Equities Ltd. and Beutel, Goodman & Company Ltd.
6th Floor
4141 Sherbrooke Street West
Montreal 215, Quebec

Direct inquiry to:
A. C. Beutel

General Information

New Venture Equities Ltd. is a privately-held company sponsored and managed by Beutel, Goodman & Company Ltd., investment counsellors. At the present time, total venture capital assets managed by Beutel, Goodman & Company Ltd. for its own and clients' accounts (including $1.1 million in New Venture Equities itself) exceed $6.2 million. Commitments range from $25,000 to $1.5 million in 19 different situations. The investment instrument has generally been equity.

Operational Approach

The management committee of four has an interesting range of backgrounds, finance, geology and chemistry, which explains the strong preference of these two companies for opportunities in the areas of financial services, natural resources and high-technology industries. The companies would not be interested in ventures in the fields of construction and development, forest products and wholesaling. Preference is given to investments in the $100,000 to $250,000 range. The companies' past investments have been in areas ranging from start-ups to buyouts. The companies prefer to invest in situations originating in Ontario and Quebec. Although control is not usually taken, representation on the board of directors is usually required. In general, the companies are looking for the possibility of divestiture in a maximum of three to five years.

Venture Analysis

An applicant must be able to demonstrate the reasonableness of his market planning and the ability to effectively plan the production process. Technical research must be completed and a prototype (if applicable) already developed before the entrepreneur's ideas will be considered. As managerial assistance can only be provided on a part-time basis through participation on the board of directors and on the executive committee, applicants should have a reasonably complete management team.

.45 RoyNat Ltd.
620 Dorchester Boulevard
West, Montreal, Quebec
Tel: (514) 866-6861

Direct inquiry to:
One of RoyNat's offices located in the following cities: Halifax, Quebec, Montreal, Ottawa, Sudbury, Toronto, Hamilton, London, Winnipeg, Regina, Calgary, Edmonton, Prince George, Vancouver.

General Information

RoyNat Ltd. is owned by The Royal Bank of Canada (41.5 per cent), Bank Canadian National (34 per cent), Montreal Trust Co. (13.5 per cent), The Canada Trust Co. (10 per cent), and General Trust of Canada (1 per cent). It was established in 1962 and provides term financing and equipment leasing to Canadian businesses. Venture capital activities consist of the acquisition of convertible debentures, convertible preferred shares or common shares, usually concurrent with some term financing, in order to provide a broader equity base for the future growth and development of a company. It is RoyNat policy to never take a controlling interest either initially or by subsequent conversion, or request representation on the board of directors.

Operational Approach

RoyNat Ltd. will consider almost all types of businesses for investment, with the exception of real estate development companies. The company has no geographical restrictions on potential investments in Canada. In lieu of taking a position on the board of directors, RoyNat monitors its investments by occasional meetings and plant visits by local representatives (14 offices across Canada) and head office personnel. In addition to the financing instruments mentioned above, the company frequently provides financial advice related to marketing and production decisions. The company has invested, by way of common shares and convertibles, in more than 40 companies and, by way of term loan and option agreement, in more than 100 companies, since it was founded. RoyNat has not invested in these ventures with other venture capital groups to date but is willing to consider joint participations. The size of term financing investments range from $25,000 to $2.5 million but the maximum common share or convertible portion of the investments have usually been in the area of $150,000. RoyNat Ltd. will invest in all stages of a

company's growth with the exception of the initial development of a promising idea to the prototype stage.

Venture Analysis
Investment proposals are evaluated by the district offices and, if they feel a proposal warrants RoyNat's participation, an "investment summary" is prepared. This sets out the proposed terms of the investment, the company's operations and results to date as well as the forecasted operating results and the basis for determining these results. RoyNat will ordinarily invest in a private company for five to a maximum of 10 years.

5.3.46 Smith's Investment
Corp. Ltd.
4101 Sherbrooke Street West
Montreal, Quebec
Tel: (514) 933-3679

Direct inquiry to:
M. Smith
E. Smith

General Information
Privately-held Smith's Investment Corp. Ltd. has approximately $500,000 invested primarily in debentures plus common stock of five portfolio companies. The company is particularly interested in small Canadian development, manufacturing or financial service corporations faced with the financing problems attributable to expanding operations.

Operational Approach
Smith's Investment Corp. Ltd. prefers investments under $250,000 which place it in a control position. The company would ordinarily hold onto an investment for no more than 10 years with control by the entrepreneur being regained by means of an earn-out. The company does not place any geographic restrictions on the origin of opportunities in which it will invest. Although Smith's Investment has invested in start-ups, preference is given to corporations at a more mature stage of development. Experience indicates that the company has avoided educational products and services, forest products, manufacturing of durable industrial goods and highly technical situations.

Venture Analysis

Smith's Investment Corp. Ltd. feels that the applicant should have completed his marketing and production plans and should be able to show how he intends to develop a complete management team when a proposal is submitted. The company will provide managerial assistance on a fee basis but this service is intended to be temporary. The company safeguards its investment through board representation (initially board control), a freezing-in of the entrepreneur's interest and by key-management insurance.

3.47 Sutton Ventures Ltd.
1018 Sun Life Building
Montreal, Quebec
Tel: (514) 866-2724

Direct inquiry to:
Ian A. Soutar
A. Scott Taylor

General Information

Sutton Ventures Ltd. is a limited company which became active in venture capital activities in 1969. 100 per cent of its shares is held by GBC Capital Ltd. Sutton prefers to participate in ventures with other venture capital groups. The firm has a capital base of $5.3 million and is managed by Pembroke Management Ltd. Sutton has invested in companies in the fields of medical service, time sharing and trucking.

Operational Approach

Sutton Ventures Ltd. has considered five proposals from January to June, 1972, and has actively invested in one during this period for an amount of $250,000. Its minimum investment has been $250,000 with its maximum being $500,000. The company wishes to remain within this range on any future investments. Sutton never seeks a controlling interest. Due to the nature of its investments, the company places no definite restrictions or obligations on the portfolio companies. Sutton has successfully participated in capital intensive service-oriented and high-technology companies and this is where its preference lies. There is reluctance to invest in the building material, chemical, construction and development, forest product and mining industries. It does not normally participate in a buy-out or turn-around situation. Several of its ventures have been out of the province of Quebec and, although

close contact is maintained by monthly financials and frequent visits, location does not create a problem. Representation on the board is not sought. All of its investments have been in the form of equity. Participation by middlemen, brokers, etc., is welcomed. Sutton has supplied capital to develop just a promising idea but the extent to which it can supply on-going management is restricted. The enterprise is expected to have developed financial and marketing planning at the earliest stage of investment.

Venture Analysis

Sutton may initially be attracted by an exhibition of an abnormal growth potential. Such growth patterns as well as financial data should be included in any submission. Final decision on any proposal rests with Pembroke Management, evaluating each company on its own merits. A decision is usually reached within two to four weeks. A rate of return on investment expected is 100 per cent per annum with Sutton participating in any investment for an average of five years.

5.3.48 Triatic Associates Ltd.
468 Portland Avenue
Montreal, Quebec
Tel: (514) 739-4566
(514) 737-8070 (Res.)

Direct inquiry to:
Donald H. D. Jackson

General Information

Triatic Associates Ltd. has been acting primarily as a source of debt financing in the short-term market. However, the company has assets of $225,000 which could be invested in venture capital situations. Triatic is interested in participating in syndications.

Operational Approach

Triatic Associates Ltd. is interested in investment situations arising at most stages of the corporate life cycle, with the exception of the expansion of a well-established company. Triatic prefers to invest in recreation and leisure industries, medical products and the general industries of both plastics and specialty chemicals located in Ontario, Quebec or the Maritimes. The company will generally be reluctant to invest in the following industries: communications, construction and development, financial

services, general high-technology, natural resources, retailing and transportation.

Venture Analysis
Triatic Associates Ltd. wants technical research and production planning completed before it will enter the picture. If required, Triatic will assist the entrepreneur by augmenting his management team. Investments will be monitored by representation on the board of directors.

3.49 United Aircraft
of Canada Limited
P.O. Box 10
Longueuil, Quebec
Tel: (514) 677-9411

Direct inquiry to:
John M. Herrick, Manager,
Business Development

General Information
United Aircraft of Canada Limited is a recent entry into the field of venture capital financing. To date, the company has invested only in high-technology start-ups. However, situations arising in more mature stages of the corporate life cycle would also interest United Aircraft.

Operational Approach
United Aircraft will be looking primarily at investment opportunities requiring less than $1 million which offer a control position. Board of director control will ordinarily be required. Preference is given to transportation, natural resources and high-technology in general. The company is reluctant to invest in education products and services, food and beverage, medical products and services, retailing and wholesaling situations. No geographical restrictions are placed on the origins of investment opportunities to be considered. United Aircraft is interested in participating in syndications.

Venture Analysis
United Aircraft feels that any technical research required in respect of a project must be completed before a proposal is submitted. The company is willing to supplement the entrepreneur's management team from its own substantial resources of management personnel. Investments will be monitored through regular financial and operational reporting in addition to board of director representation.

5.3.50 Industrial Development Bank
General Manager's Office
P.O. Box 6021
901 Victoria Square
Montreal, Quebec
Tel: (514) 866-2701

Direct inquiry to:
The manager of
any one of the 52
branches throughout Canada

General Information

The Industrial Development Bank (IDB) is a wholly-owned subsidiary of the Bank of Canada. IDB has been functioning since 1944 and, at present, has total assets in excess of $600 million. IDB gives particular consideration to small businesses. Most of its loans are for amounts of less than $100,000. IDB does make larger loans but the larger the amount required, the greater may be the possibility that financing is available elsewhere with reasonable terms and conditions.

Operational Approach

The principal vehicle for the employment of IDB's funds is loans secured by a first charge on the fixed assets of the borrowing business. In those equity situations in which IDB has participated, the full spectrum of investment instruments has been employed. IDB will consider applications at all stages of corporate development. IDB will invest anywhere in Canada.

Venture Analysis

IDB expects an applicant to be capable of developing all the necessary facets of the normal management process. However, it accepts the fact that significant deficiencies may exist at the time the entrepreneur submits his proposal. Investments are monitored by reviewing financial statements submitted regularly and by plant inspections and visits as required or requested. IDB does not deal through brokers or middlemen and will not permit any portion of an investment to be paid out to them.

Industrial Development Bank Regional and Branch Offices.

British Columbia Region (including Yukon Territory).

Regional Office	900 West Hastings Street, Vancouver, British Columbia
Campbell River	427 10th Avenue, Campbell River, British Columbia
Cranbrook	30 South 11th Avenue, Cranbrook, British Columbia
Kelowna	1460 Pandosy Street, Kelowna, British Columbia
Prince George	1320 Fifth Avenue, Prince George, British Columbia
New Westminster	765-6th Street, New Westminster, British Columbia
Vancouver	885 Dunsmuir Street, Vancouver, British Columbia
North Vancouver	145 West 15th Street, North Vancouver, British Columbia
Victoria	777 Broughton Street, Victoria, British Columbia
Chilliwack	45850 Yale Road West, Chilliwack, British Columbia

Prairie Region (including Northwest Territories)

Regional Office	161 Portage Avenue, Winnipeg, Manitoba
Winnipeg	161 Portage Avenue, Winipeg, Manitoba
Brandon	144 Sixth Street, Brandon, Manitoba
Regina	2220-12th Avenue, Regina, Saskatchewan
Saskatoon	1102 CN Towers, Midtown Plaza, Saskatoon, Saskatchewan
Lethbridge	740-4th Avenue South, Lethbridge, Alberta
Calgary	404 Sixth Avenue Southwest, Calgary, Alberta
Edmonton	10150-100th Street, Edmonton, Alberta
Grande Prairie	10104-101 Avenue, Grande Prairie, Alberta

Ontario Region

Regional Office	250 University Avenue, Toronto, Ontario
St. Catharines	205 King Street, St. Catharines, Ontario
Kingston	797 Princess Street, Kingston, Ontario
Metropolitan Toronto	250 University Avenue, Toronto, Ontario
Toronto–North	4430 Bathurst Street, Downsview, Ontario
Mid-Ontario	250 University Avenue, Toronto, Ontario
Hamilton	20 Hughson Street South, Hamilton, Ontario
Kitchener-Waterloo	305 King Street West, Kitchener, Ontario
London	197 York Street, London, Ontario
Windsor	500 Ouellette Avenue, Windsor, Ontario
Sudbury	96 Larch Street, Sudbury, Ontario
Sault Ste. Marie	452 Albert Street East, Sault Ste. Marie, Ontario
Thunder Bay	106 Centennial Square, Thunder Bay, Ontario
Kenora	120 2nd Street South, Kenora, Ontario

Quebec Region

Regional Office	800 Victoria Square, Montreal, Quebec
Rimouski	320 St. Germain Street East, Rimouski, Quebec
Chicoutimi	152 Racine Street East, Chicoutimi, Quebec
Quebec	925 Chemin St. Louis, Quebec, Quebec
Trois-Rivieres	550 Bonaventure Street, Trois-Rivieres, Quebec
Sherbrooke	1845 King Street West, Sherbrooke, Quebec
Montreal (North)	110 Cremazie Boulevard West Montreal, Quebec

Montreal (South)	800 Victoria Square, Montreal, Quebec
Rouyn-Noranda	65 Mgr. Tessier Street, Rouyn, Quebec
Ottawa	151 Sparks Street, Ottawa, Ontario
Longueuil	101 Place Charles Lemoyne, Longueuil, Quebec
Sept-Iles	446 Arnaud Avenue, Sept-Iles, Quebec

Atlantic Region

Regional Office	1583 Hollis Street, Halifax, Nova Scotia
St. John's	85 Elizabeth Avenue, St. John's, Newfoundland
Halifax	1583 Hollis Street, Halifax, Nova Scotia
Sydney	195 Charlotte Street, Sydney, Nova Scotia
Saint John	75 Prince William Street, Saint John, New Brunswick
Moncton	236 St. George Street, Moncton, New Brunswick
Charlottetown	51 University Avenue, Charlottetown, Prince Edward Island

6:1 **The Canada Development Corporation**

The Canada Development Corporation (CDC) was incorporated by special act of parliament in late 1971. The corporation's objectives are to help develop and maintain Canadian-controlled and managed corporations in the private sector of the economy and to give Canadians greater opportunities to invest and participate in the economic development of Canada.

At present, the CDC's outstanding shares are entirely owned by the federal government but it is expected that shares will be issued to the public in the near future and that, eventually, the government's interest will be reduced to 10 per cent. The CDC is a unique financial institution launched by the government but intended to be operated in the private sector. It is not a crown corporation, does not report to parliament and is not subject to government interference in its operations. The government has committed to subscribe for $250 million in cash over the three years ending in 1974 and, based on the price at which initial shares were issued, the corporation has an authorized share capital base of $3 billion.

The CDC intends to complement, rather than compete with, other financial institutions and will concentrate on making equity investments in large, longer-range development projects. While its incorporating legislation directs it not to invest in companies having an equity of less than $1 million, by the end of 1972 major capital investments and commitments had been made in three venture capital firms which will, in turn, assist the development of entrepreneurship and technology of new and expanding Canadian companies. In August, 1972, the CDC paid $4.5 million for a 35 per cent interest in Venturetek

International Limited, an established Toronto-based venture capital company. In January, 1973, it acquired a majority interest in Ventures West, a new Vancouver-based firm, for $2 million and has announced that it will invest up to $4 million for a 40 per cent interest in a new Montreal-based company, which will be managed by Kauser, Lowenstein & Meade.

Initially, the CDC has selected six priority fields of investment: the petrochemical-related industries, mining, oil and gas, health-care, pipelines and related northern transportation and venture capital.

In addition to the venture capital interest outlined above, the Corporation has made the following investments or commitments to date:

(1) In July, 1972, it acquired 100 per cent ownership of Polymer Corporation from the federal government at a cost of $62 million plus a contingent payment of $10 million if certain future profit targets are attained. This price was taken in CDC shares at net asset value by the government.

(2) In June, 1972, Connaught Laboratories was acquired from the University of Toronto at a cost of some $25 million.

(3) In October, 1972, the CDC joined the Canadian Arctic Gas Study Limited group which is at present studying the feasibility of a Mackenzie Valley gas pipeline and has indicated that, if a satisfactorily attractive project can be developed, it would favourably consider investing up to 25 per cent of the equity required, which would amount to some $250 million based on current financing assumptions.

(4) In January, 1973, the CDC committed $5 million for a majority interest in Omnimedic Inc., a new Quebec holding company formed with the Caisse de Dépot et Placement which has, in turn,

acquired two Quebec-based companies in the pharmaceutical and medical supplies field.

(5) In February, 1973, the corporation announced acquisition of 70 per cent interests in Raylo Chemicals and R & L Molecular Research, a small but highly regarded biochemical research group located in Edmonton.

(6) Under its incorporating legislation, the corporation has the right to negotiate acquisition from the federal government of three crown corporations—Panarctic Oils, Eldorado Nuclear and Northern Transportation Company—but conclusive negotiations for these companies have not occurred to date.

The CDC places strong emphasis on profitability of its activities and, in considering prospective investments, looks for a potential growth rate of 15 per cent per annum and a rate of return on equity in the range of 15 per cent. Its basic goal is to identify unusual growth opportunities where a unique Canadian competence can be developed or encouraged and industries which involve an upgrading of resources, a high-technological base or good export potential have a particular attraction. Ordinarily, the CDC will look for controlling interests, either directly or in concert with other Canadian investors.

In evaluating potential investments, the corporation will generally be as demanding as any other private venture capital concern. It does not intend to bail-out unsuccessful ventures, to pre-empt takeovers, to act as a buyer-of-last-resort or to assume some special responsibility for employment.

APPENDIX

A QUANTITATIVE STUDY OF THE SOURCES OF VENTURE CAPITAL IN CANADA

by
P. L. Crane and J. V. Poapst

A.1 Introduction

The supply of venture capital is a particularly important subject. Yet it is a subject on which there is little systematic information. This chapter fills some of the gap. It reports the salient findings of an exploratory combined mail and interview survey conducted in 1971[1] In this survey, the provision of venture capital was defined as the purchase of equity in companies whose shares are not cleared for trading by provincial securities commissions. Essentially, this means equities in private companies. The survey identified the sources of venture capital and outlined, in aggregate form, the policies and practices of specific groups of Canadian investors. Although the study was completed in 1971, many of the observations are still valid.

A.2 Survey Procedure And Scope

A list of 845 possible suppliers of venture capital was developed with the assistance of John Hardie, Varitech Investors Limited, and other experts in the venture capital field. All were written to ask if they

[1] See P. L. Crane, *Venture Capital in Canada* (Faculty of Management Studies, University of Toronto, MBA thesis, sponsored and published by Varitech Investors Limited and Executive Programs, Faculty of Management Studies, University of Toronto, 1972) iv, 85. The thesis was initiated by John Hardie and Jim McKinney, Varitech Investors Limited, and M. R. Hecht, Faculty of Management Studies, and prepared under the supervision of J. V. Poapst, Faculty of Management Studies.

had or would provide some form of equity capital to companies whose shares were not readily available and to request an interview with those companies which responded in the affirmative. Altogether, 639 investors (76 per cent) responded of whom 317 indicated an interest in making venture capital investments (see Table 1). Of this number, 237 were interviewed using prepared questions about the investments they had recently made or arranged, the types of investments sought in the future, the investment processes used and the interviewee's general views on venture capital investing. Of the 237 investors interviewed, 151 were multi-industry investors and described their activities in some detail. They are the diversified investors whose policies and practices are described in this chapter.

Included in the group are companies classified as "venture capital organizations", "venture funds" and "venture managers". Venture capital organizations are defined as firms (1) devoting at least one man per year to analysing and monitoring their investments in private companies; and (2) which intend to invest for a period not greater than 10 years. Venture funds were defined as firms specifically investing a proportion of their funds in private companies for short or intermediate periods but which spend less time with venture capital investments than do venture capital organizations. Venture managers were defined as firms, other than members of the Investment Dealers' Association, who organize capital for private companies in return for an equity interest and an investment management fee.

In the mail survey, there were 37 venture capital organizations, 22 venture funds and 11 venture managers (see Table 1). Other types of investors included, in descending order of frequency, industrial companies (204), mutual funds, insurance

companies, individuals, trust companies, closed-end investment companies, other financial institutions, banks and pension funds (6). In addition, there were 187 other investors. Response rates varied, from 100 per cent for venture funds, venture managers and pension funds, all of which had been identified by referral, and banks, to 49 per cent for other investors. As indicated earlier, the overall response rate was 76 per cent. Besides other investors, the only response rates less than the average were from holding companies (69 per cent) and mutual funds (66 per cent).

Among those who responded, the proportion which indicated an interest in making venture capital investments varied from one type of investor to another (see Table 1). For those whose names were compiled from business directories, the proportion ranged from 97 per cent for holding companies to 16 per cent for trust companies and the average was 58 per cent. Although there are several possible reasons for not responding, presumably lack of interest in making venture capital investments was an important one.

The interest of some investors was confined to a single industry or was otherwise limited. Forty-nine investment dealers expressed an interest in private company investments; 39 of these firms were interviewed. Five of those interviewed invested in ventures from capital associated with the firm. In 21 of the firms, the directors would occasionally invest but the firm would not. An additional 12 firms would organize capital but not invest. One firm interviewed has left the field. The 76 industrial companies who indicated an interest in private company investments generally confined this interest to their own industry. The 11 insurance companies who were identified as investors were considerably more interested in real

TABLE 1

INVESTORS SURVEYED, BY TYPE

(number)

Source of Survey List	Type of Investor	1 Investors Written	2 Investors Responding	3 Investors Indicating an Interest in Area[1]	4 Interest Ratio ((3 ÷ 2) x 100%)	5 Investors Interviewed	6 Investors Included in Group of 151
Business Directories[2]	Banks	9	9	6	67%	6	0
	Closed-End Funds	19	15	11	73%	9	9
	Holding Companies	51	35	34	97%	25	24
	Industrial Companies	204	181	76	42%	47	0
	Insurance Companies	52	47	11	23%	9	0
	Investment Counsellors	52	44	20	45%	17	17
	Investment Dealers	120	98	49	50%	39	29
	Mutual Funds	64	42	10	24%	7	2
	Trust Companies	20	19	3	16%	3	2
Referral	Venture Capital Organizations	37	34	34	N/A	33	33
	Venture Funds	22	22	22	N/A	22	22
	Venture Managers	11	10	10	N/A	10	10

	Individuals	30	25	23	N/A	20	15
	Pension Funds	6	6	6	N/A	6	5
Directories and Referrals	Other Financial Institutions	19	17	7	N/A	4	2
	Other Investors	187	92	31	N/A	14	0
	Less Multiple Counting[3]	(58)	(57)	(36)		(34)	(19)
	Total Number of Independent Investors	845	639	317		237	151

[1] Investors replying that they or their clients had in the past purchased or anticipated purchasing equity in companies whose shares were not readily marketable.

[2] Closed-end funds were identified from the Financial Post Survey of Investment Funds, 1970; holding companies from the Financial Post Survey of Industrials, 1970; industrial companies from a list of Canada's 200 Largest Industrial Companies measured by sales, assets and profits; insurance companies from the Financial Post Directory of Directors; investment counsellors from the Financial Post Survey of Investment Funds and from the yellow pages of telephone directories in cities visited; investment dealers from the Directory of Members of the IDA; mutual funds from the Financial Post Survey of Investment Funds; trust companies from the Financial Post Survey of Industrials.

[3] Investors classifiable under more than one occupation are included above under each occupation. The deduction removes this multiple accounting.

estate-oriented equities than in equity in diverse private industrial companies. Only two trust companies were prepared to invest in private companies in the future. All banks interviewed generally avoided taking a direct equity interest in diverse private companies. While some mutual funds were identified which had invested in private companies in the past, they did not appear to represent a future source of private company equity capital.

Of the investors included in the survey, those of greatest interest were the venture capital organizations and the venture funds. Together they numbered more than one-third of the 151 diversified investors which were identified. It is possible to provide an indication of their combined scale of operations. Calculating from the investments made in the year prior to the interview and adjusting for the small amounts of non-response, the following results are obtained.

	No. of Firms	Amount Invested—$ Million Total	Outside Canada	In Canada
Venture Capital Organizations	37	24.0	1.5	22.5
Venture Funds	22	4.0	1.5	2.5
	55	28.0	3.0	25.0

By comparison, one U.S. venture capital organization alone, the Heizer Corporation, invested about $25 million in roughly the same period.

A.3 Investment Policies Of 151 Diversified Investors

1. Industry Preferences—

   The 151 investors were prepared to consider investment in private companies in a wide range of industries. From a list of 21 industries investors were asked to indicate whether they were very interested, moderately interested or had no inter-

est in investing in each one. Slightly more than one-third of the investors stated they had no preferences among industries to be considered for investment. Industries in which most investors stated they were very interested were financial services, recreation and leisure, communications and natural resources. This level of interest was expressed by about one-third of the investors in each case. One industry was labelled "general high-technology". It was of moderate or greater interest to 80 per cent of the investors. The industries of least interest were chemicals, wholesaling, forest products and non-durable manufacturing but no industry was rejected by more than 35 per cent of the group. Thus, for the group of investors as a whole, the industry itself was not a sufficient criterion for rejecting a proposal.

2. Stages of Companies' Development Accepted—

   Company development was divided into five stages—start-up[1], development, expansion, turn-around and buy-out. At each stage of development there was a high proportion of investors who would accept investments, the lowest proportion being for the turn-around stage, 66 per cent (Table 2). Expansion was the stage for which the highest proportion of each type of investor would accept investments, except venture capital organizations. For them the highest proportion was the development stage, where the company is established but not yet profitable.

3. Locations of Companies Accepted—

   Generally speaking, the closer to the investor a company is located, the easier it is for the investor to explore an investment proposal and to monitor the investment if a proposal is accepted. Thus,

[1] 'Start-up' was defined in the survey in such a way that it included both 'Stage zero' and 'Start-up' as defined in this booklet.

some preference could be expected for investments in the home-city area and, with possible exceptions, for the home province. All investors, except for one venture capital organization, were prepared to invest in other provinces and 68 per cent were prepared to invest abroad. This last figure is another indication that equity capital is not chauvinistic but is allocated on the basis of opportunity, knowledge and management skills.

4. Sizes of Investments Sought—

   Size refers to the amount of investment the investor is prepared to make himself or, in some cases, the size of investment syndicate he is prepared to organize. The favoured size of investments was $100,000-$500,000 (64 per cent of investors), with investments of $500,000 and more (52 per cent), followed by the size range of $50,000-$100,000 (44 per cent) and less than $50,000 (35 per cent). About one-third of the investors were prepared to make investments or arrange syndicates for the smallest size range with the venture managers, venture funds and investment dealers most open to providing capital amounts in this size range.

5. Equity Participation Generally Sought—

   In the group of 151 investors, some generally sought only minority positions (34 per cent), some only majority positions (23 per cent) but some generally sought either minority or majority positions (43 per cent). As a result, 77 per cent were generally prepared to accept minority positions and 66 per cent were generally prepared to accept majority positions. The participation generally sought least was that less than 10 per cent but, even here, 30 per cent of investment dealers and 22 per cent of venture funds were prepared to provide equity capital, perhaps along

with some of those investors included in the group prepared to take both majority and minority participations. Adding the exceptions from general policy which one could expect at least some to make, capital could be said to be offered for a wide range of participations.

6. Accepted Methods of Monitoring—

   Majority equity participation provides shareholder voting control over the company. Other means of monitoring investments are to receive regular reports, have passive representation on the board of directors, be actively represented on the board, provide regular management consulting services to the company and appoint some of the direct management of the company. For all investors combined, having an active director was the most frequently accepted method of monitoring (54 per cent), followed by regular management consulting (43 per cent). These were the two most popular methods for venture capital organizations, venture managers, investment counsellors and holding companies, although the order of preference was reversed for some.

7. Skills Sought In And Offered To Companies—

   The skill sought most frequently in companies considered for investment was general management ability (81 per cent of investors) followed by marketing management (63 per cent) and technical research (51 per cent). Investors were most frequently prepared to aid companies in financial planning (90 per cent), mergers and acquisitions counselling (82 per cent) and financial management (77 per cent). Thus, as one type of financial organization or another, they sought primarily general management and non-financial skills in the companies and were prepared mostly to help with various financial skills.

TABLE 2

151 DIVERSIFIED INVESTORS—FUTURE INVESTMENT POLICIES BY TYPE OF INVESTOR

(Per Cent of Investors)

Policy / Type of Investor (No. of companies)	Total (151)	Venture Capital Organizations (33)	Venture Funds (22)	Venture Managers (10)	Investment Counsellors (17)	Investment Dealers (29)	Holding Companies (24)
Stages of Development Accepted	(r:94%)[1]						
start-up	69%[2]	61%	68%	78%	63%	69%	64%
development	78%	88%	84%	78%	87%	73%	73%
expansion	83%	76%	90%	89%	100%	89%	82%
turn-around	66%	69%	69%	67%	71%	69%	59%
buy-out	74%	66%	74%	78%	85%	88%	82%
Locations Accepted	(r:88%)						
home province	99%	97%	100%	100%	100%	100%	100%
other provinces	91%	90%	94%	100%	100%	92%	76%
foreign	68%	68%	72%	88%	85%	75%	48%
Size of Investment Sought	(r:78%)						
less than $50,000	35%	29%	44%	75%	31%	35%	6%
$50-100,000	44%	50%	75%	38%	54%	26%	29%
$100-500,000	64%	72%	94%	22%	77%	61%	65%
$500,000 and greater	52%	57%	44%	47%	69%	44%	83%

Equity Participation Generally Sought	(r:78%)						
less than 10%	9%	4%	22%	13%	30%	7%	0%
10-49%	25%	20%	24%	13%	18%	31%	3%
50-100%	23%	9%	12%	13%	14%	0%	74%
both majority and minority	43%	67%	42%	61%	38%	62%	23%
Methods of Monitoring Accepted	(r:89%)						
regular reports only	24%	7%	47%	0%	33%	44%	0%
"passive" director	26%	32%	32%	11%	20%	48%	0%
"active" director	54%	61%	68%	44%	53%	48%	55%
regular management consulting	43%	58%	32%	78%	40%	9%	67%
some direct management	25%	32%	21%	44%	13%	0%	48%
Maximum Holding Period Accepted	(r:89%)						
0-3 years	23%	4%	60%	29%	60%	33%	0%
4-6 years	41%	72%	40%	29%	20%	47%	0%
7-10 years	14%	24%	0%	29%	20%	20%	0%
greater than 10 years	22%	0%	0%	13%	0%	0%	100%

[1] Response rate, i.e. % of 151 investors responding to this question.

[2] Read: 69% of those investors who responded to this question (94%) would generally accept start-up stage investments.

8. Maximum Holding Period—

   The maximum period for which the investors planned to hold their investments ranged from less than three to more than 10 years. The most common period was from four to six years (41 per cent). No investment counsellors or investment dealers had a maximum holding period greater than 10 years; no venture fund had one greater than six years. By definition, no holding company had a maximum holding period of less than 10 years and no venture capital organization of greater than 10 years. Venture managers collectively had the greatest variety of maximum holding periods.

A.4 **Recent Investments Of 151 Diversified Investors**

The investors were asked to describe their three most recent investments in private companies. The investors (93 per cent) who responded to this question described 303 investments. Of these, 194 were placed in the two years prior to the summer of 1971. For comparability in time, this group was selected for description.

1. Satisfaction With Investments—

   Investors were asked to state their degree of satisfaction with each investment they reported on a five-point attitude scale ranging from disappointed (1) through satisfied (3) to very happy (5). The resulting ratings, of course, are highly subjective. They are useful, nonetheless, in that they permit us to describe the characteristics of recent investment in relation to the investors' own assessments of their experience. Presumably, recent experience has some effect upon near future practice.

   Taking all investments together, investors stated that they were very happy in 35 per cent of the cases. Only 14 per cent were assigned the

lowest point on the scale, disappointed. Overall, 74 per cent of these investments were described as satisfactory or better.

2. Function Of The Company—Type of Market—

   Investments were about equally divided between companies in the manufacturing (41 per cent) and services (39 per cent) industries (Table 3). Venture capital organizations, venture funds and venture managers made relatively more investments in manufacturing companies, and investment consultants, investment dealers and holding companies invested relatively more often in service companies.

   About one-half of the investments were for products to be sold in industrial markets and about one-third for sale in consumer markets. The remainder were for sale in both. The highest proportions of investments in industrial products were made by venture funds (67 per cent) and venture managers (64 per cent). The highest proportions for consumer products were made by investment counsellors (53 per cent) and investment dealers (43 per cent).

3. New Or Established Technology—

   Based on the interviewer's evaluation, an attempt was made to divide investments between those involving new and those involving existing technology. On this basis, about one-quarter of the investments were judged to involve new technology, about one-half were judged to involve existing technology and, in the remainder, the classification was unclear. Of new technology investments, 57 per cent were made by investors who described themselves as very interested in future investments of this kind, 30 per cent were by those moderately interested and 13 per cent by those declaring no future interest in new techno-

TABLE 3 **151 DIVERSIFIED INVESTORS—RECENT INVESTMENTS IN PRIVATE COMPANIES**

(Per Cent of Investors or $)

Investments / Investors (Number of companies)	Total (151)	Venture Capital Organizations (31)	Venture Funds (22)	Venture Managers (10)	Investment Consultants (17)	Investment Dealers (29)	Holding Companies (24)
Number of Investments Reported	194	48	29	16	23	32	24
Function of Company (%)	(r:99%)[1]						
manufacturing	41%[2]	52%	48%	58%	39%	31%	35%
service	39%	38%	35%	21%	48%	44%	39%
other	20%	10%	17%	21%	13%	25%	26%
Type of Market (%)	(r:95%)						
consumer	35%	38%	26%	21%	53%	43%	27%
industrial	52%	52%	67%	64%	33%	54%	46%
both	13%	10%	7%	14%	14%	3%	27%
Location of Company	(r:94%)						
home province	65%	62%	32%	79%	58%	73%	67%
other provinces	23%	19%	32%	21%	32%	23%	25%
foreign	12%	19%	36%	0%	10%	4%	8%
Stage of Development	(r:98%)						
start-up	45%	38%	48%	46%	26%	66%	24%
development	17%	19%	37%	15%	39%	16%	0%

expansion	19%	21%	11%	23%	13%	15%	16%
turn-around	8%	12%	0%	0%	4%	0%	24%
buy-out	11%	10%	4%	16%	18%	3%	36%
Level of Technology[3]	(r:77%)						
new	28%	32%	53%	25%	25%	17%	11%
established	72%	68%	47%	75%	75%	83%	89%
Market Value of Company (000's)[4]	(r:88%)						
1st quartile	$ 250	$ 415	$ 380	$ 255	$ 240	$ 135	$ 225
median	725	1,010	980	950	550	550	750
3rd quartile	2,500	2,050	3,600	3,400	2,250	1,100	2,300
Size of Investment Made (000's)[5]	(r:92%)						
1st quartile	$ 60	$ 95	$ 90	$ 40	$ 105	$ 40	$ 110
median	185	235	145	300	225	165	475
3rd quartile	530	410	275	1,125	575	550	1,125
Equity Participation Taken	(r:92%)						
0-9%	17%	16%	45%	6%	20%	10%	0%
10-49%	39%	49%	41%	38%	25%	46%	0%
50-100%	44%	25%	14%	56%	55%	44%	100%

[1] Response rate, i.e. % of the 194 investments for which this information was available.

[2] Read: 41% of the investments for which the function of the company was discernable were investments in manufacturing companies.

[3] Level of technology as evaluated by the interviewer.

[4] Computed as cost of investment × (100 ÷ % equity participation purchased).

[5] Size or participation of either the direct investment made by the investor or if the investor organized a syndicate of investors, then of that syndicate.

logy investments. The first two figures reflect levels of specialization in this area by the interviewees. The third figure indicates some poor experience.

Venture funds invested relatively more frequently in new technology ventures than did the other investors. Approximately one-half of their reported investments involved such technology. About one-third of the investments by venture capital organizations were in new technology companies. While few of the established technology investments were made in companies located outside of Canada, foreign companies accounted for about one-third of the new technology investments.

4. Stage Of Development–

   Investments were typically made in companies at the start-up stage (45 per cent). Less than 20 per cent of investments were made in companies at any one of the other four stages. Investment dealers made the highest proportion of their investments at the start-up stage (66 per cent); investment consultants at the development stage, i.e. the company is operational and prospectively but not actually profitable (39 per cent); holding companies at the buy-out stage (36 per cent).

   Most types of investors and most investors did not invest in all five stages of company development. Venture funds, venture managers and investment dealers reported no investments in companies at the turn-around stage, i.e. investment is made to re-establish on a profitable basis a company that is in difficulties. Holding companies made no investments at the development stage. Venture funds and investment dealers made more than 95 per cent of their investments

in the start-up, development and expansion stages.

Cross classification data, not shown here, revealed that investments in services were made at later stages in the companies' development than were investments in manufacturing.

Evaluation ratings were significantly poorer for investments in companies at the development stage than in investments in companies at other stages. Only 26 per cent of development stage investments were considered better than satisfactory. About one-quarter of investments in this stage were made by investors who generally would not invest in companies in this stage in the future. By contrast, 45 per cent of investments in companies at the start-up stage were evaluated as better than satisfactory; 19 per cent of these investments were made by investors who generally would not accept this type of investment in the near future, at least. Only one expansion stage investment was made by an investor who generally would not consider investing again in companies at this stage.

5. Location Of Company—

Most investments were made in the investor's home province (65 per cent) followed by other provinces (23 per cent) and, finally, those made in companies located abroad (U.S. 9 per cent; elsewhere 3 per cent). Investors with the most atypical geographical distribution of investments were the venture funds whose investments were divided about equally between the three areas. Investors located in Montreal invested abroad relatively more frequently than the others; western investors confined themselves almost exclusively to Canada. Relatively more often, foreign investments were in new technology and in

companies at the development stage. For investments in the U.S., slightly less than one-half were made by investors who would monitor their investments essentially through the receipt of regular reports only. In contrast, only 21 per cent of Canadian investments were made by investors who would monitor in this manner.

6. Market Value Of Company—
Size of Investment—
Equity Participation Taken—

Data were collected on both the size of the investments made and proportion of equity capital acquired. From this, the market value of the company was calculated. So determined, the median market value of the equity capital of the companies was $725,000. For one-quarter of the companies the value was less than $250,000, and for one-quarter it was more than $2,500,000. The median for venture capital organizations, venture funds and venture managers was clearly higher than the median for the holding companies, investment consultants and investment dealers reporting.

Size of investment refers to the amount of investment by the interviewee's firm itself or by any syndicate he may have organized. The median investment was $185,000 with the largest investments made by holding companies and the smallest by venture funds. Thus, holdings differed from those for market value of investments.

Equity participation taken by investors provided majority control in 44 per cent of the investments. Venture capital organizations and venture funds acquired majority control relatively much less frequently than other types of investors. Nearly one-half of investments by

venture funds provided an equity interest of less than 10 per cent. All investments reported by holding companies involved majority control.

A.5 In Conclusion

Subject to the limitations of its scope, the survey indicates that there is a sizeable number and variety of investors in Canada who are prepared to supply venture capital. Some are specialized investors, others are diversified. The latter, collectively, are prepared to consider investments from any of a large range of industries; in companies at various stages of development; close to home office and at a distance, including other countries; over the whole of the small end of the company size scale; take majority or minority positions; monitor their investments in any of several ways; supplement the managerial skills of the companies they invest in with skills they provide, particularly financial ones; and plan to hold the investments for short, medium or long-term periods.

The survey findings do not say whether the supply of venture capital is adequate from the entrepreneur's standpoint. It is one thing to show the number of investors who report that they will accept any particular attributes of an investment. It is another to show how many will accept the particular set of attributes in the financing the entrepreneur seeks. During the survey, some interviewees were found to hold the opinion that the supply of venture capital was adequate to finance the projects that were worthwhile. This is not to say, however, that entrepreneurs would necessarily accept this view.

To the Canadian economy, characterized as it is by a relatively large number of high-risk investment opportunities, a high level of foreign investment and the need to sustain a high rate of economic growth to provide employment for a rapidly expanding labour force, the supply of venture capital is a particularly important subject. Yet it is a subject on which there is little systematic information. This booklet fills some of the gap by assisting entrepreneurs to identify and to negotiate with the suppliers of venture capital in Canada.

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